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INSTITUTIONAL PREMISES, FACTORS AND LIMITATIONS FOR ORGANIZING A FINANCIAL CENTRE IN RUSSIA IN THE CONDITIONS OF FINANCIAL GLOBALIZATION

Keywords: financial globalization, post-crisis development, financial centre, institutions.

The aim of the research is to outline the main characteristics of the financial globalization and determine some institutional premises, factors and limitations for organizing a financial center in Russia.

Specifics of modern post-crisis stage in world economic development is both in forming global players and the biggest world financial centres which concentrate themselves quite substantial finance power and which are the creditors of the most agents of global economy. They are also the centres of concentrating information about these agents' situation. Financial centres change criteria of economic decisions and motivation of economic activities towards short-term operations and immediate profit taking. They stimulate outflow of investments from a production sphere to a financial one.

After the crisis the definitions which are alternative to the period of financial globalization appear – such as "multipolar world", "state regulation return", "national competitiveness". Forming integration associations is the main instrument to liquidate uncertainties in using accumulated savings and in building stable long-term relationships in order to fulfill economic programmes of cooperation.

In the conditions of globalization a model of development of financial sector has a value character. Global financial economy has started producing cost by crediting real sector. Integration and transnationalization processes stimulated cost relief which produces in a financial sector in conditions of financial globalization regardless of the processes in a real sector.

Professor of MSU named after M.V. Lomonosov Professor V.G. Belolipetsky detected this tendency pointing to the fact that in the conditions of dominating financial-investment instruments market agents realized it and began to change the structure of business assets in favor of financial and intellectual assets [1, 202].

In the conditions of globalization on the basis of transnational financial operations new mechanisms of economic interrelationships between the states and economic agents of world financial market appeared, information-communication technologies which serve the connections between local goods' and financial markets have been improved. Cooperation of financial institutions and international mobility of capitals also greatly increased. At the same time increase volatility in developing countries was less connected with general changes of world economy climate.

P. Krugman in his work stresses that "in the situation of total decrease in industrially developed countries dependence of industrial growth in developing countries from global factors are

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being greatly increased and new financial instruments of commercial banks and other financial institutions also stimulate this dependence" [2, 29].

If in industrial economy this disproportion between economic and non-economic factors of economy development took place inside each country in the conditions of financial globalization these disproportions became international. The correlation between global economic factors concentrated in the "gold billion" countries and non-economic factors concentrated in other countries deformed.

One of the consequences of financial globalization and quick growth of financial markets became the opposition "real" and financial sectors of economy. Professor V.M. Kollontay pointed to the integration strategies of development of global financial institutions "which use various mechanisms of increasing their assets, functions, influences, control and management of financial flows" [3, 46].

To make regulation in global economy efficient a state must have substantial finance capital, it must be a gross capital formation on the market. In the conditions of global resources' competitiveness a state must create a most-favoured-nations regimes to raise foreign capital, to develop rational schemes of its investing by decreasing taxes from investment sums, financial operations or from expected products and also to create infrastructure for raising capitals playing the role of a guarantor of investments.

International financial centre (IFC) is a part of a strategical programme of Russian economy modernization. Experts choose Russia as the second (after China) potential candidate for a new international financial centre. These are the results of the survey of 223 experts from 53 countries which was conducted by one of the international institutions [4, 3].

The task to found IFC was defined in the paper "Strategies of development of financial market in Russian Federation for a period till 2020". Instruments and technologies of IFC foundation were declared in "Conceptions of creating international financial centre in Russian Federation" and in the plan of measures on its foundation in which the stages of IFC forming were stated.

These indicated measures are mostly reasonable; however they can be called standard necessary for normal functioning of any financial market regardless of having it claims to have an international centre status.

Work group for founding IFC under the President of Russia formed a consultant board in which experts from international financial sphere joined as well as representatives of the biggest banks and investment companies. The criteria were made to understand how fast the process of financial centre forming is developing. Among them are the following: growth of foreign participants' number on the Russian financial market, foreign capital presence. Besides macroeconomic stability it is also important for foreign investors their stay conditions in the country – such as comfortable hotels, well-trained personnel, proper education level and fluent English of most professionals.

In many financial centres participants have a free access to international marketplaces. Western experts gave a set of recommendations on Russia's way to IFC based on stabilization of macroeconomic indicators and the most important of them – control of inflation. Inflation is a built-in component of world economy and international finance (one of the consequences is "constant" growth of asset value). World financial dynamics in a post-crisis period will depend upon inflation growth of prices on products' and finances' assets. It is most likely that in developed countries of a global financial system inflation will be in average less than in transition and developing economies.

Low inflation rate is one of the indicators of financial sector's development level, the indicator of balance of financial system and limited value of risks. Development of globalization processes, capital saturation of forming markets can come to gradual converging of inflation rates in the countries of financial core and financial periphery, to their gradual "aligning".

Nowadays among all the countries Russia takes the first place according to its high inflation rate that is unacceptable for International financial centre. One of the weak items is a bank sector which is behind other countries, first of all according to the credit lending level (including mortgage credit lending). Now market capitalization of financial market is very low – 850 billion dollars which meets an average size of average market of regional value.

In 2009 renovation of a pre-crisis model of global financial system based on exponential growth of financial assets began. Replication of this development model can result in new concentration of risks destabilizing world economy development.

Higher inflation is a built-in component of Russian economy based on mostly nonmonetary character of inflation in Russia which is determined by the following factors: oligopolistic character of price formation in the conditions of concentrated property, tariff politics of the state in which in 2000s annual two-digit changes of prices were included, high level of risks and profitability, included by owners in prices, increased in 2000s regulative load which was reflected by business in prices, excessive interest to exporting capital leading to prices' excessiveness and pursuing to maximize short-term profit, also a high speculative component in price growth, particularly based on speculative investments of non-residents and so forth.

It is important to take into account so-called "Moscow effect" in which more than 60% of financial assets of Russia are concentrated and as a result there take place effects of "overhang" of money demand over products and services' supply (an additional monetary inflation factor). Markets of Moscow are the most important engine of inflation in economy of Russian Federation.

Russia falls under the group of developing economics with one of the highest in the world inflation rate. Decline in inflation in 2010 lower than 10% was connected with the crisis fall in producer prices (while keeping two-digit growth of consumer prices).

The task of founding financial centre in Russia is particularly actual in the conditions of post-crisis development. This process takes certain time and during this period main draft bills also in the sphere of stock institutions' functioning, taxation of securities trading and others should be developed.

The foundation of a financial centre providing development of integration processes will allow modernizing domestic financial infrastructure that, in its turn, will provide additional resources' flow-in in economy. Mechanism of fulfilling this project is based on financial-information capital and information-network technologies which provide an easy access to financial operations.

As actual grounds for founding an international financial centre one can also call the factor that Russian stock exchanges (both RCRME and MCSE) currently occupied from 10 to 16 places in the leading ratings of capitalization according to the number of registered emissions and other indicators. Foundation of IFC should create favorable investment regime which will allow attracting the biggest financial companies to work in Russia.

At the same time there are no plans to make a regime of some kind of financial offshores and to earn on financial services as it usually occurs in offshore areas. To boost the foundation of international financial centre it is necessary to make the following institutional conditions for foreign investors: a common depository, provision of transparency of securities turnover, guarantees from court system, from law-enforcement agencies and others.

One of the favorable institutional factors or founding financial centre is that in Russia there is no capital gains tax. Legal platform for forming an international financial centre is made though Washington Convention (adopted in 1965 and regulated investment lawsuits) is still not ratified in Russia and it is the basic mechanism of defending a foreign investor.

Russia is the only country from the post-Soviet ones the capital of which – Moscow - for many years keeps its place in a global rating of 75 the biggest cities in the world claiming to have a financial centre. Now it has 68th place.

Gradually Moscow is becoming a financial centre of the regional scale. Pooling of capital is taking place in the frames of Russia, Belarus and Kazakhstan. The nearest goal is to provide direct access to financial markets creating common economic space not only for state issuers but for banks and insurance companies as well.

As the most important measures in founding IFC one can call regulations premises made by FFMS which allow turning over foreign securities in Russia. At the same time estimation of these measures allows defining their limited character for turning Moscow into a financial centre of a global level comparable with the top ten ratings of global financial centres. It can be explained by the fact that an institutional mechanism of founding IFC is still working out and the current one needs to be modernized.

Relevance of the problem of designing a financial centre is determined by dynamics and character of Russian market integration into infrastructure of world capital market. Further development strategy not only of the national financial market but of the country in general is totally depended upon the value and quality of a new institution.

Will Russia be integrated into a global financial system or will our domestic financial system take a subordinate place in relation to a comparatively narrow group of transnational banks and the biggest stock exchanges? It depends upon designing of IFC and its foundation demands long and careful work of the whole market infrastructure: stock exchanges, professional participants of financial market, banks and regulators. Moreover, the role of a stock exchange in this process is particularly important because it is the stock exchange which becomes "an entry point" to the internal financial market of the country and "an access point" to the international capital market for domestic investors and issuers.

Considering that it is the stock exchange which is "a landmark" of any financial centre MCSE starts developing its infrastructure on the basis of actual world standards both on technologies and comfortable work for clients as well as on range of suggested services.

A perspective project closely connected with the idea of IFC is to create an international segment in the frames of MCSE in which one can do deals with instruments of a pair "euro-dollar", foreign securities and can make accounts using Clearstream, Euroclear, national depositaries of CIS countries.

World stock industry in the conditions of globalization changed greatly and these changes are connected with capturing new markets, implementing new instruments, consolidating and upsizing of stock exchanges, changing principles of doing business. One of the main trends in developing stock institutions is their internalization. The causes of these processes should be sought in greatly increasing the process of globalization and consolidation of traditional stock business in the conditions of competitiveness growth[1].

Conception of organizing IFC should be oriented to foreign investors' mentality, and the development strategy of national financial market must be based on solving the tasks which are first

[1] Technological potentials and demand to fight with competitors' attack make stock exchanges to go beyond the national frames and offer their services on the international market. Competing with broker electronic systems, stock exchanges refuse from their traditional forms of work such as closed clubs which exist at the expense of their participants' fees. These institutions are gradually turning into financial centres which give their services to any participants.

of all in demand of domestic market agents. To connect these strategies mutually it is necessary to define actual priorities in strategy of founding IFC in Russia. This strategy must be based on the fact that sphere of its fulfilling – global financial market.

Financial centre of global level must be established on well-adjusted and flexible information infrastructure because the strategy of its forming is designed according to information-network principle, beyond strict hierarchical systems, with many players who can easily contact each other with the help of information technologies.

Considering that in order to form IFC it is necessary to organize a common Centre for giving corporate information from issuers in Russian and in English which allows securities holders - issuers from the countries – participants EAEC -and investors getting actual and authentic information about corporative events of the issuers whose securities are traded on the certain markets of IFC through the Internet.

The second of the most important elements of IFC infrastructure should become a common information-technical centre providing unified electronic document workflow built by using domestic cryptographic means between professional participants of financial markets regardless of their particular jurisdiction. Fulfilling the idea of so safe communicator between the subjects of relationships of financial markets of post-Soviet countries is possible with the help of EDB.

Functioning of this element in information infrastructure should result in decreasing of costs of the countries – participants of EAEC, with their investing into each others' economies, and in boosting relationships between financial institutions and investors.

Therefore, to form institutional mechanism for IFC foundation as a global market operator which stimulates forming of common economic space between the countries developing integration strategies it is necessary to solve the following problems:

1. To boost further development of integration contacts between countries and to use mechanisms of EAEC to create IFC on its base working for economies of all countries-participants.

2. To develop strategy of forming IFC on the basis of development of supernational financial institutions with a high status of non-governmental institutions such as EDB.

3. To encourage making a common information-technological environment for participants of financial market from the countries of EAEC (and Ukraine) and creating information infrastructure which provides its functioning.

Functioning financial centre will give Russian economy an increasing volume of investments in real economy, stabilizing incomes and growing welfare of its population, developing modern town and communicative infrastructure. Designing financial centre-integrator should stimulate creating favorable economic background, reaching global competitiveness, establishing transnational banks, making efficient social infrastructure, developing human resources capital in our country.

It is very important to stress the role of regions in fulfilling this project. Considering that financial resources in Russia are irregularly distributed among the regions, a potential model of development of this financial institution can be interregional financial centres on the basis of federal districts or in the frames of macroregions. Organizing regional financial centres, then forming this structure on the basis of CIS and EAEC is an important task because ruble gradually becomes attractive currency for other states and switching over ruble accounts will improve financial potential of Russia.

Forming of new international financial architecture should meet interests of developed countries but not only the countries with forming financial markets. New financial architecture should be built not to the prejudice of fundamental principles of market economy but on the contrary with the aim of their forcing. Risks regulating should be made on the basis of new institutional mechanism in such a way that no business could get rid of their load using instruments of multilevel hedging.

Analysis of recent crises shows that it is necessary to found principally new economic institutions – new global regulators.

System of focused regulation of financial-investment activities of actors of global economy should include instruments stimulating capital concentration and making big national, regional and international corporations, financial groups. State forming economic development strategy must provide efficient regulation of money-credit sphere, decreasing of inflation level as well as stimulate consolidation of national capital, developing securities market and moreover, it must come to this market itself making big loans through selling state bonds.

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FROM DEVELOPMENT TO CRISIS: ORIGINS AND OUTCOMES OF THE NEOLIBERAL TRANSFORMATION

Key Words: neoliberalism, institutional economics, democracy, social costs, open-system approach, institutional transformation.

Introduction.

The urgent question of a way out of the crisis presupposes a tentative understanding of its characteristics. To this purpose, the analysis of the economic and political traits of the historical period commonly called 'neoliberalism' – from the crisis of the 1970s determining its genesis to the present crisis – can be helpful. Only on this ground, in fact, can we look for a reply to a series of questions: are the causes of the crisis still in force? To what extent is it possible to remove them? Which reforms would be desirable, and what are the scope and depth of the institutional change they imply?

Neoliberal globalization has not allowed the so-called Western countries to resume their postwar pace of growth. The slowdown has continued in the last three decades – more or less creeping or dramatic, more or less postponed by various 'bubbles', making then heavier the crash. The globalization of the labor market has gone hand in hand with its fragmentation. Corporations have looked for cheap labor and convenient or, better, inexistent labor legislation all around the world. Lower levels of wages and harder conditions of work have been imposed in 'central' countries too, in the name of the need to face competition. This sort of corporate strategy is obviously embittered by the current crisis, together with competition; however, by depressing workers' purchasing power, it makes the crisis continue. The result is a vicious circle producing 'social costs' (see Kapp 1963), shifted from big industrial and financial corporations onto many small enterprises, the greater part of citizens, public administrations, weaker countries, and future generations. Yet, not merely the crisis, which is also a result of neoliberal policy, but that policy itself have had devastating consequences on human beings, society, and natural environment.

At this point, it seems necessary to call more in general into question the ability of human beings to take care of their own destiny through a purposeful control of social institutions, and, in particular, of the economic system. This is firstly a theoretical problem, going beyond the closed playground of conventional economics. How can we evaluate the effects of the economic system on its human, social and ecological environment? How would it be possible to overcome the inefficiency of the system, resulting from such reckoning? The problem turns out to be also, or principally, a political problem.

On the one hand, in order to understand the present situation and organize a better future, the adoption of a holistic, open-system, and normative approach is indispensable. This approach has marked the 'institutional' tendency of economic theory, or at least its more radical rep-

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resentatives. On the other hand, if the solution of problems cannot but be political, the quality, indeed the very effectiveness of solutions depend on the degree to which political life is democratic. Well then, a basic characteristic of the neoliberal transformation is the attack to democracy. The so-called 'privatization of politics' consists in the fact that big corporations and technocratic international organizations enjoy of an unprecedented and unaccountable concentration of power and are able to directly condition governmental policies. The consequence is that not only the informed and responsible participation of the majority of citizens in choices concerning their life and their future is undermined, but also the institutions of formal democracy – parliaments in the first place, and the complex system of 'countervailing powers' – are bypassed, or thwarted and even destroyed. We should be particularly worried about the state of democracy, because democracy is an essential condition for both individual freedom and, as Karl Polanyi says (1977: xliii), our ability "to enlarge our freedom of creative adjustment, and thereby improve our chances of survival."

1 . Globalization, commodification, financialization

Compared to the postwar epoch of development, neoliberal globalization, on the one hand, continues the tendency to spread the practice and ideology of 'free market' all over the world. On the other hand, neoliberalism is characterized by the erosion of the defenses by which both developed and developing countries might still oppose the market mechanism. The ensuing irresponsible use of human and natural resources is highlighted, for example, in a report by various authors, entitled Alternatives to Economic Globalization. The book begins by examining such "key ingredients of the globalization model" as: "hypergrowth and unrestricted exploitation of environmental resources"; "privatization and commodification of public services" and "global and community commons"; "cultural and economic homogenization" and "consumerism"; conversion of national economies "to environmentally and socially harmful export-oriented production"; "corporate deregulation and unrestricted movement of capital across borders" and "corporate concentration"; "dismantling of public health, social, and environmental programs"; the shift of decision-making power from "democratic nation-states and local communities" to "global corporate bureaucracies" (International Forum on Globalization 2002: 19).

In the 1970s the crisis of the development era had to be acknowledged, together with the inherent contradictions of organized capitalism that postwar reconstruction and prosperity had masked. Inflation, and public and private borrowing began to grow, as a consequence of such intertwined factors as the slowing down of productive investment, the over-accumulation of capital, and the unequal distribution of the wealth annually produced. Remedies adopted have been, as usual, a lowering of costs and new opportunities of investment. These remedies have been the primary aims of globalization; however, the former reproduces depressive tendencies, the second creates new problems. Lowering labor costs and social expenditure, instead of augmenting taxation on higher incomes, cannot be a solution to over-accumulation, because the result is a restrained aggregate demand. To this "first" contradiction of capitalism, consisting in the tendency to capital over-accumulation, a "second contradiction" is added (see O'Connor 1991), as a consequence of business enterprises shifting costs onto the human and natural environment (Kapp's "social costs"). Economic growth has been possible, according to James O'Connor, only by depleting and damaging the environment of the economic system, without taking these costs into account. This process gradually leads to a rise in costs for the economic system itself, and thereby to the need to increasingly shift costs onto the environment, risking a runaway process. The tendency toward a counter-adaptive relationship with the environment accelerated during the postwar epoch of development and has become ever more apparent in the globalization era.

As to the new fields of investment, they are of two sorts. Some only allow a temporary and illusionary increase of occupation and income, as is the case of financial and real estate speculation. Others actually widen the scope of capitalist investment; new regions have been included in the process of accumulation and in the world market, as well as new aspects of individual and social life, such as leisure and knowledge activities. Intensified competition concerning the appropriation of natural resources, and the increasing 'land grabbing' by private enterprises and sovereign funds – a true agrarian counter-reform – have changed the frugality of millions of people into poverty, provoked irreversible damages in the natural environment, and augmented, together with warmongering, military expenditure. A new food crisis is presently compromising the living conditions, and even the very survival, of the poorest on the global stage, after the food crisis of 2007-2008. These crises have once again shown that the scarcity of food depends primarily on the social and political setup, and, in particular, on the dynamics of capitalist development. Huge masses of people have been made dependent on the world market through the expropriation of their resources and competitive prices of foodstuffs produced industrially – and often subsidized by governments, as is the case of both the United States and the European Union. Subsequently, the increasing of investment in agriculture, in particular in view of producing biofuel, caused prices to grow, also in consequence of speculation, to the point that people could no longer afford to buy their food (see McMichael 2009 and also Drèze and Sen 1989).

Polanyi (2001 [1944]) maintains that only in the "market society" or "capitalism" labor, land, and money generally and typically acquire the nature of commodities. In the course of this society's development, such unprecedented – and, in Polanyi's view, unnatural – cultural innovation has been bounded by a "countermovement". Neoliberal globalization tends to suppress political, socio-cultural, and geographical limits to the functioning of the market system. Indeed, the reforms starting in the 1970s give rise to a new 'mode of regulation' of capitalism, or, as Polanyi would say, to a new "institutional arrangement" of the market system. In the neoliberal era, labor, land, and money tend to be mere commodities, instrumentally employed in view of monetary gain, which constitutes – as Polanyi, and Max Weber before him, affirm – the basic motive of the economic activity in that system.

Acquiring hegemony, neoliberalism asked for a 'de-regulation' of economic activity, beginning with labor and financial markets. The opening up of new fields for investment was pursued: not only financial speculation, but also scientific research, leisure activities and commodities, real estate, public utilities, health care and social services. This kind of investment generally implies rent, monopoly positions, devaluation of labor power, inequality, and a further commodification of individual life and social relationships. The 'privatization' wave has not only jeopardized the 'European social model'; it has also opened new and not necessarily legal opportunities for collusion between a political patronage system and private economic interests. David Harvey points out that the main achievement of neoliberalism has been "to redistribute, rather than to generate, wealth and income"; an "accumulation by dispossession" has been generated through various means which required state support, such as "the use of the credit system", the commodification of land and labor power, the privatization of commons (natural resources and knowledge) (Harvey 2005, p. 159). In the 1980s Structural Adjustment Programs were imposed on 'developing' countries. Restrictive monetary and budget policies were also recommended to 'central' countries, the purpose remaining that of reassuring international creditors and financial investors. Profits (and losses) of the latter were to be paid for by drawing resources from wage workers and social expenditure, even at the risk of a deflationary runaway.

Moreover, knowledge has been added to labor, land, and money as a fourth "fictitious commodity". The legislation on patents and intellectual property has been extended to new domains, from software to living entities. This tendency started in the United States in 1980. Patents have become easier to obtain, and can concern not only inventions, but also results, methods and fields of basic research. The privatization and commodification of commons has now reached knowledge itself. Not only inventions, that is new technological devices, can be privately appropriated and given a monetary value as commodities, but the absolute novelty is that the same thing also applies to discoveries, that is to the enlargement of the human knowledge of nature. This constitutes a new step in the process of privatization and commodification of commons beginning with land, at the dawn of capitalist development. Thus, whether knowledge consists of new scientific discoveries or old traditions, the power of big corporations increases, and the gap between developed and developing countries widens.

The governance of the world system mainly rests on the Washington Consensus, which is generally understood as the set of "development strategies that have come to be associated with the Washington-based institutions: the IMF, the World Bank, and the US Treasury" (Serra, Spiegel, and Stiglitz 2008: 3). That "consensus" began with an attack on state intervention in the economy, and in particular the state's role in initiating and addressing industrialization; later, the focus shifted to privatization, price stability, and further liberalization, of capital markets in the first place. Thus "market fundamentalism" has spread – that is, "the view that markets solve most, if not all, economic problems by themselves" (ibid.). "There Is No Alternative", Margaret Thatcher used to say. This political and cultural trend gradually received such a wide support from opinion makers, social scientists, and would-be progressive political groups, that it has been called "pensée unique" by Ignacio Ramonet (1995).

Neoliberal globalization did not establish general growth and equity; nor did it assure democracy and environmental sustainability. The efficiency of markets has been questioned, both in general and in view of the strong asymmetries characterizing actual markets. In fact, under the free trade system some people and countries are systematically less free than others. Not only does free trade favor "central" countries that enjoy more advanced industry, as it has done throughout the history of capitalist development; not only is this advantage more a systematic difference undermining competition than a competitive advantage as defined by classical economics; but it is strengthened by the leading role that big corporations – and the governments with which they have a relationship of mutual support – have in international agreements and institutions. Just to cite a couple of examples concerning the role of the WTO (World Trade Organization): 1) the Agreement on Trade-Related Intellectual Property Rights (TRIPs), negotiated in 1994, gives high-tech transnationals the right to monopolize innovation in such important fields as information and communication technology, and biotechnology. 2) All countries are in principle obliged to cut customs duties and quantitative limits on import goods, but the USA and the European Union are allowed to subsidize their farmers, which on the world market amounts to a dumping policy.

Problems regarding international economic institutions have indeed been widely raised. Joseph Stiglitz points out, for instance, "the 'democratic deficit,' and the lack of political legitimacy" affecting such institutions; furthermore, criticisms concern their incapacity to adapt prescriptions to particular situations, as well as their "close links with financial markets" and therefore with financial interests (Stiglitz 2008: 52). There is a loss of confidence in liberalization as a universal remedy, while the role of state institutions has been reassessed – Stiglitz observes. The tendency he names the "post-Washington Consensus" calls not only for a radical revision of "structural adjustment" policies, but also for "reforms in global governance" inspired by two basic requirements: 1) not just the increase in GDP (Gross Domestic Product), but also "environmental and social sustainability" and a fairer distribution should be the goal of development policies; 2) "countries should be given room to experiment, to use their own judgment, and explore what might work best for them" (ibid.: 54).

But, as Walden Bello (2007) asks, are these requirements consistent with the maintenance of globalization, understood as the "unsuccessful effort to overcome the crises of overaccumulation, overproduction, and stagnation that have overtaken the central capitalist economies since the mid-1970s"? Moreover, he continues, people would in fact "prefer to be part of economies that are susceptible to local control and are buffered from the vagaries of the international economy".

These requirements may, in fact, point the way to a far-reaching criticism of the very substance of capitalist development, and may entail deeper reforms than those envisaged by Stiglitz (and others). Thus more general problems may be raised at the anthropological level, at which the very nature of modern civilization is questioned: "Another World Is Possible" (see Fisher and Ponniah eds. 2003, George 2004).

As the crisis of global economic governance is a systemic one, Bello maintains (2002: 107-8), "deglobalization" represents the way forward. The WTO, which is the instrument of neoliberal corporate-driven globalization, should be dismantled. The Bretton Woods institutions should be converted into research agencies along the lines of the Organization for Economic Co-operation and Development (OECD), with the task of "monitoring global capital and exchange rate movements" (ibid.: 108). Not only should production be prevalently oriented to local markets and not to exports, but the "re-empowerment of the local and national" would be possible within an alternative, pluralistic system of global governance – one that would be able "to tolerate and profit from diversity" (ibid.: 114, 115).

Bello is clearly more radical than Stiglitz in criticizing the international institutions regulating neoliberal globalization; however, they both consider regional autonomy and diversity as a basic requirement of an alternative type of development. Bello (2002: 117) adds that "the agenda of people-oriented sustainable development can succeed only if it is evolved democratically". This presupposes a "re-empowerment of the local and national", which would only be possible within an alternative, pluralistic system of global governance – one that would be able "to tolerate and profit from diversity" (ibid.: 114 and 115). But these requirements are not consistent with the maintenance of neoliberal globalization, understood as the "unsuccessful effort to overcome the crises of overaccumulation, overproduction, and stagnation that have overtaken the central capitalist economies since the mid-1970s" (Bello 2007).

In fact, we can say with Michel Chossudovski, and with an obvious reference to the fundamental contradiction of capitalist accumulation pointed out by Marx, that the global economic system is characterised by two contradictory forces: the consolidation of a global cheap-labour economy on the one hand and the search for new consumer markets on the other. The former undermines the latter (Chossudovski 1997, p. 17).

Not only the analysis of the present crisis cannot be limited to its financial aspect, but 'financialization' itself can only be explained with reference to the deep and contradictory dynamics of capitalism. Some consider the size and forms assumed by finance as opposed, and detrimental, to 'the real economy'. In fact, with 'financialization' we make reference to some important institutional developments, on which the crucial role played by financial markets depends. In particular, the primacy acquired by the so-called shareholder value has important consequences on firms, to which a high level of ROE (Return on Equity) is imposed by the power of financial organizations. Managers are therefore compelled to limit investment to the most profitable opportunities and to reduce the cost of labor. As a consequence, growth remains low, unemployment does not diminish, and inequality rises.

It is true, then, that the new forms and relevance of financial activity are typical of the neoliberal era: however, they have also to be understood as functional to capitalist accumulation in a situation of systematic tendency to stagnation. John Bellamy Foster (2007) recalls that Harry Magdoff and Paul Sweezy raised in these terms the issue of a non-contingent shift toward finance in their 1987 book Stagnation and Financial Explosion, but had already detected this tendency in the second half of the 1960s. Foster points out that the neoliberal ideology imposed itself together with "monopoly-finance capital", and is instrumental in justifying heightened exploitation and inequality, which provide money for financial speculation, and eventually to bail out financial corporations risking failure.

Public intervention of that sort is presently commonly called 'socialism for the rich' or 'corporate welfare'. We can find a comment on a similar policy – though at a much smaller scale – in an article by Marx (1857), who, in the middle of the liberal era, ironically points out that "this kind of communism" does appeal to capitalists.

To look at the deepest dynamics of the market-capitalist system – beyond the enormous increase and important innovations of financial activities of the last decades – can be rewarding, if crucial questions have to be raised and answered. Why, to begin with, an effective reform of the financial system, one comparable to that carried out by Roosevelt in 1933, seems presently so difficult, indeed impossible? The same can be said as to the risk of an environmental catastrophe: many years passed between the 1972 United Nations Conference on the Human Environment (Stockholm Conference), when the environmental problem emerged as a global issue, and the United Nations Climate Change Conference held in Copenhagen (Dec. 7-18, 2009): but wise analyses and recommendations continue to fail to be implemented. Why did the astonishing increase of productivity not make happiness (as utilitarian philosophers used to say) or well-being (as we say) easier to pursue? Moreover, our 'globalized' world is not peaceful, and we must acknowledge the decay of democracy.

Vandana Shiva (1997: 105) recalls that Rabindranath Tagore "saw democracy in society as derived from the principles of diversity in nature". Global development, led by transnational corporations – she observes – "can only be realized by ripping apart society's plural fabric along with its capacity to self-organize" (ibid.: 103). In her 1993 book Monocultures of Mind, Shiva analyzes the connection between the disappearance of varieties of plants, animals and productive techniques, and the disappearance of socio-cultural alternatives. Peoples lose the control of both their resources and knowledge – that is to say, of their conditions of existence. Undermining self-government, neoliberalism curtails liberty.

Most proponents of an alternative path insist on regional autonomy, to be pursued through democratic political institutions. According to the ecological economist Juan Martinez-Alier, for instance, the only way to build a human economy – an economy for human beings which would also be capable of adapting well in the natural environment – is a regional economy organized in the most democratic way possible. Thus the organization of the economy could again be controlled by society, not by embedding it within a traditional culture, but by modern, democratic politics, taking the power to choose away from both transnational corporations and corrupted local élites (see Martinez-Alier 1997; Guha and Martinez-Alier 1998).

The project of a "universal capitalism" supported by a free-market ideology, which was going to be implemented under the leadership of the United States, was already criticized by Polanyi during the Second World War. In an article of the beginning of 1945, he opposes to that project the possibility of multiplying regional experiments in social organization and economic development. He hopes it would be possible to develop such experiments autonomously, without being conditioned by the Soviet model, and “without having tacitly to accept the universalist market criteria” (Polanyi’s unpublished note, cited by Polanyi-Levitt 1990: 261).

Such alternative, democratic, and regionally-based development would have also been a condition for peace. In Polanyi’s opinion, the dominant position of global business tends instead to induce people to assert their ethnic and/or religious identity through a struggle against other people; they do so under the illusion of being able in this perverse way to recover their autonomy and their ability to control the conditions of their lives.

Today, in fact, liberal universalism spreads together with a series of regional conflicts and wars, which are often related to neocolonial policies of old and new powers. Fifty-two years after Polanyi’s article, Shiva writes (1997: 103) that “globalization can only be realized by ripping apart society’s plural fabric along with its capacity to self-organize.” As a consequence, diversity becomes fragmentation, and “the justification for violence and war”. In fact, she observes on the same page,

As conditions of everyday life become increasingly controlled by outside forces and systems of local governance decay, people cling to their diverse identities as a source of security in a period of insecurity. Tragically, when the source of their insecurity is so remote that it cannot be identified, diverse peoples who have lived peacefully together start to look at each other with fear.

Let us now recall the first of Stiglitz’s above cited “requirements”, according to which the goal of development policies should not just be an increase in GDP, but also “environmental and social sustainability”. Both Bello and Shiva interpret that requirement in a radical way. They emphasize, for example, the connection of “food security” with “sustainable agriculture”, and also with democratic control of resources. In addition, they make reference to a series of movements and struggles that constitute growing opposition to the current global system. Serge Latouche (see e.g. 2004; 2006) grounds his rejection of an economy whose only goal is growth for growth’s sake, and his proposal of a system based upon a different kind of logic, a “degrowth society”, in an analysis of the results of market-centered growth and the condition of people he calls the “naufragés du développement”.

Polanyi deeply criticizes the society and “mentality” of the market, and the fallacious generalization of the features of this peculiar socio-cultural arrangement to the economy in general. Moreover, he points out the link between “social efficiency” and the degree of “living democracy” at all levels of social organizations (Polanyi 1925). Most proposals for an alternative social organization make reference to his ideas, and in particular to the need to reverse the autonomy of the economy, so that the economy can serve as a means for societal ends, thus ceasing to set self-referentially its ends. In Polanyi’s view, the allocation of resources is biased by the domination of “formal economic rationality” over the rationality regarding social choices (“material” rationality, in Weber’s terms). That is to say, ends and means of production tend to be determined, or at least constrained, by the need to make profit in a “market situation”. Productive choices of capitalist firms, primarily taking into account the need to maximize profits, do not generally coincide with choices maximizing social utility – with “serviceability for society at large”, as Thorstein Veblen (1901) says. Polanyi belongs, in fact, to the institutional/heterodox tendency in economics stretching from Veblen to K. W. Kapp (see e.g. 1963 and 1985). They all take for granted that the market (capitalist) system is not efficient, as is evident when growth of monetary revenue ceases to be taken as the true measure of development.

In the next section Polanyi’s thesis of the direct and tight relationship between democracy and efficiency will be tentatively demonstrated a contrario: in the course of the neoliberal transformation not only the risk of crisis persists, but both efficiency (in the sense of social utility) and democracy are growingly jeopardized.

2 . Economic crises and the crisis of democracy

Paul Krugman (2010) interprets the current deep crisis as "the early stages" of a third depression, after the Long Depression and the Great Depression, beginning respectively in 1873 and 1929. However, it is also possible to say that the slowdown that has been going on, through some cyclical oscillations, since the 1970s has dramatically come to a head.

Complex analyses of the crisis of the postwar development in the 1970s – such as that by James O'Connor's (1973) – raised the issue of a necessary transformation, involving both economic and political institutions. But the change could have followed two opposite paths: either toward democracy or away from it. In reality, such alternative constitutes a crucial aspect of the history of the Twentieth century, continuing, for the moment, in the Twenty-First. This thesis, which implies that the relationship between the economic and political spheres is a central issue, can be found for instance in the history of "the short Twentieth century" by Eric Hobsbawm (1994), as well as in Polanyi's reflection. The major and definitive crisis of liberal capitalism, culminating in WWI, makes some change inevitable: a "great transformation": but, which way? In any case, Polanyi pointed out (1935, p. 367), as the solution of a radical and therefore socialist democracy could not be realized, capitalism continued its existence under a new institutional arrangement: "in its non-Liberal, i.e. corporative forms". The extent to which some aspects and formal rules of democracy will survive depends on economic and political conjunctures, with important geographical differences.

The Great Crisis, in Polanyi's opinion, involved the whole fabric of society; in particular, it made class conflict deeper, while cutting out economic means for a class compromise. The very need for incisive reforms led the ruling class to a stronger control of power in order to monopolize decisions about which reforms were to be implemented, and to what extent. Moreover, Polanyi contends that the diffusion of fascist regimes in many countries – and the weakening of democratic institutions in many others – revealed "the mutual incompatibility of Democracy and Capitalism" (ibid., p. 391) at that stage of their history. "The Fascist Virus" – we read in two of Polanyi's manuscripts by the same title – is endemic in modern society, and reawakens in critical situations. Some years later, Kapp expresses himself similarly (1950, p. 40): the market economy has been accompanied by the growth of freedom (whenever it gave rise to higher standards of living) and by a return to totalitarian controls (when it produced a state of affairs which large masses of people considered intolerable).

The criminalization of dissent and the underrating of civil rights are a part of this general tendency, which has spread in recent years, and has been often supported by instrumental justifications, such as the "War on Terror".

The alternative between improvement and decay of democracy continues to be on the agenda, according to Polanyi, and becomes particularly evident in times of crisis and change. Soon after WWII, he foresaw again a possible evolution toward a "truly democratic society", where the economy would be organized "through the planned intervention of the producers and consumers themselves" (1947, p. 117). But he feared that the opposite tendency would prevail, supported by those who "believe in elites and aristocracies, in managerialism and the corporation". The resulting society would be "more intimately adjusted to the economic system", which would remain unchanged in its basic features (ibid.), while democracy would be damaged and possibly depleted.

Otto Bauer (1936) interprets "the crisis of democracy" after WWI as the crisis of the ruling class' hegemony. In The Great Transformation Polanyi speaks in the same sense of the crisis of "the liberal state". The Report to the Trilateral Commission (1975) confirms – though implicitly, through 'monetarist' arguments – that this is again the case in the 1970s: wage and normative gains obtained by unionized workers are pointed out as the cause of 'stagflation' and budget deficit. Not long before, in 1973, in Chile, the attack by Allende's government on transnational corporate power and North American rule roused a violent reaction. Augusto Pinochet took power and notoriously adopted neoliberal economic policies suggested by the Chicago School. Later, the turning point of the illiberal neoliberal solution to the crisis of the Seventies spread throughout the world. In 1978 Deng Xiaoping opened China to economic liberalization and capitalist accumulation, within an authoritarian political framework. Soon afterword, the basic purpose of both Margaret Thatcher's and Ronald Reagan's governments, starting respectively in 1979 and 1980, was to demolish the alarming power of labour, firstly but not only in industrial relations. In addition, the new 'supply-side' model of accumulation, based on the priority of profit and rent, entailed a decrease of taxation for the wealthiest strata. If, then, the "fiscal crisis of the state" was to be faced, a greater cut of public spending was needed – the U.S. military budget representing an important exception (plus 7% per year from 1981 to 1985).

The 'neo-liberal transformation' was achieved in the 1990s by a series of reforms. Under Bill Clinton's presidency, for example, a Welfare Reform embittering the condition of the poorest and widening the working poor area was implemented, and the final liberalization of financial markets was realized by the repealing, in 1999, of the Glass-Steagall Act of 1933. In the same year 1999 the NATO bombing of Serbia achieved 'deregulation' also in the field of international law.

We have seen in the previous section that the institutions of the Washington Consensus, and more generally the very conception of development, have been widely questioned, and democratic alternatives have been proposed. Similar issues can be raised concerning vast regional (in fact, continental) agreements and associations, such as the NAFTA (North American Free Trade Agreement) and the European Union.

The European Union – also through its enlargement, to former socialist countries in particular – has accentuated those aspects of its constitution and strategy, that give its governance, and therefore its approach to the crisis, a non-democratic character. 1) Technocratic and oligarchical decisional procedures set aside popular control through elected representatives. 2) There is a paradoxical fragmentation of member states' policies concerning wages, work regulations, taxation, welfare, control on financial activities, and industrial strategies. Besides, restrictive monetarist policies are imposed, while neomercantilist attitudes are allowed, exporting unemployment to other countries. 3) Privatization of public utilities and services, reduction of wages and pensions, and of taxes for higher revenues, freedom for financial investment, and green light for delocalization of industrial activities have been allowed and often recommended. 4) There is an ideological shift from social-universalistic to individual rights, noticeable for instance in the 2007 Lisbon Treaty. 5) All this clearly coincides with the neoliberal creed to the advantage of big business, contributes to the counter-revolution against social reforms conquered by labor, increases economic and social inequality, and leads to a hierarchical structure of the market as well as among member states.

Recent vicissitudes of Greece show that EU is incapable of escaping from the menace of speculation on the sovereign debt of European states, which must borrow from private financial corporations. Governments are obliged to cut public spending. The ensuing reduction of civil servants, investments, and social security benefits clashes with the increase of unemployment and poverty. Moreover, given the deflationary effect of such policy, overcoming the crisis becomes harder. The public debt will tend to increase, as a consequence of two combined factors: low growth, if not recession, causes the erosion of public revenue, while higher interest rates are imposed by the financial market. The financial market, in fact, is inefficient, in the sense that it tends to cause positive feedbacks. The risk of default and failure augments not only, as we have seen, precisely because of the measures imposed in conformity with the neoliberal myth of the efficiency of markets – that is, with the interest of financial investors – but also because of the very logic of speculation. In conclusion, it seems absurd to entrust the destiny of entire nations to neoliberal strategies that proved to be ruinous, and to financial organizations that provoked the crisis and whose bailout is paid with public money: some € 3,000 billions according to the esteem concerning the EU, while the entire Greek debt amounts only to 350 billions.

The neoliberal transformation and the present crisis show that the economic contradiction is doubled by a political one. A rational use of resources from the point of view of social well-being and ecological equilibrium would only be possible through a democratic control of the economic system. But neoliberal society is dominated by technocratic and unaccountable institutions, while collective institutions trying to counterbalance asymmetries of power and information (e.g. trade unions) or of safety and 'capabilities' (welfare state) have greatly weakened. In the United States, for instance, union membership has declined, especially since the early 1980s. According to a recent Report of the Bureau of Labor Statistics (Jan. 21, 2011), "in 2010, the union membership rate [...] was 11.9 percent", with a remarkable difference between public sector workers (36.2%) and private sector workers (6.9%).

Big corporations and international organizations have taken decisional power away from national states, which remain the only seat where democratic institutions traditionally developed and to some extent go on. The managerial, elitist, and authoritarian aspects of postwar corporatism have taken increasingly the place of welfare policies and pluralistic 'concertation'. The structure of governance has changed. Political representative institutions are tendentially by-passed or undermined by a growing and more direct influence of economic corporate power on law-making and governmental policies.

In the interwar transformation, according to Polanyi, the need to face the irreversible decay of the 19th century utopia of the self-regulating markets gave rise to new institutional arrangements implying the removal of the institutional separation of the economic and political spheres. The basic feature of neoliberalism too is not, in spite of its name, free market, but a tighter intertwining of economic and political powers. Again, the defeat of 'big labor' is a preliminary requirement, while business becomes 'bigger'. Oligopolistic competitors have become more and more involved in politics. Thus the neoliberal institutional setup enhances the role of the "power elite" analyzed by Charles Wright Mills (1956) as the leadership by corporate, political, and military vested interests in society. Capital concentration, deregulation, globalization and financialization give business an unprecedented power, not only economic, but also political, which is removed from democratic control, indeed opposed to it.

The decay of democracy is both a means and a consequence of this process. Many authors take this tendency into consideration. Robert Reich (2007) traces it back to the 1970s, and asks for a "battle for democracy", though limiting it to a regulation of corporate lobbying and environmental damages, and to the defense of democratic procedures. These procedures are bypassed and jeopardized according to Noam Chomsky, who notoriously maintains, referring in particular to global finance, that the free flow of capital creates what is sometimes called a 'virtual senate' of lenders and investors who carry out a moment-by-moment referendum on government policies, and if they find that they are irrational, meaning they help people instead of profits, then they vote against them, by capital flight, by tax on the country, and so on. So the democratic governments have a dual constituency, their own population and the virtual senate, who typically prevails (www.democracynow.org/2009/7/3 noam_chomsky).

The opposition electoral control/business control concerning The Policy-Making Process is dealt with by Lindblom in his 1980 book so entitled, and is a central issue in a new version of the book (by Lindblom and Edward Woodhouse, 1993). Here the authors also point out that the electoral control itself tends to be directly "manipulated," and indirectly influenced by the diffusion of pro-business cultures and by the objective weight of business in economic and social conditions of life. Such influence, in reality, is only an aspect of the "unique and powerful role" that business plays "in the overall scope of public policy making" (Lindblom and Woodhouse 1993: 91). This role "renders the task of intelligent, democratic governmental policy making extremely difficult"; in particular, in "a market-oriented society" it is difficult to restrain big economic interests, even if they cause waste and suffering (ibid.: 102-103). The conclusion, to which Lindblom and Woodhouse consistently arrive, is that "the privileged position of business, inequality, and impaired thought" are "tightly interconnected" (ibid.: 143). These three elements reinforce each other and "constitute major impediments to more intelligent social problem solving" (ibid.: 141).

According to Crouch (2003: 6-7), in the current "minimalist" model of democracy, which he calls "post-democracy", policies are decided within the interaction between elected governments and privileged elites, which prevalently represent economic interests. From Reagan on, in Crouch's opinion, the American concept of democracy tends to be reduced to free elections – more precisely, we could add, to the right to vote, since the electorate's choice is limited, ill-informed, and not necessarily respected. Furthermore, the present dominance of mass media on public opinion is highly worrying, if the early remark by Schumpeter is to be taken into account, that the voters' opinion and choice cannot but be shaped, "and the shaping of them is an essential part of the democratic process" (Schumpeter 1943: 282). Most mass media are, in fact, possessed by big corporations, and all of them depend on the huge budget corporations dedicate to advertising.

Moreover, the remains of formally democratic institutions are increasingly subjected to distortions and retrenchments, in the absence of such a substantive factor of democracy as wider, well-informed and responsible participation to political life. In fact, according to Crouch, the more the state renounces its interventions concerning common people's life, the more people become indifferent towards politics, the more thoroughly and safely multinational corporations can exploit the community, by controlling the political agenda and manipulating public opinion (Crouch 2003: 25-26).

The recent huge public help to financial organizations risking failure has similar, indeed paradoxical, consequences: the increase of public debt not only makes a further reduction of social expenditure necessary, but it makes governments more subject to restrictions imposed by international institutions (be they located in Washington, Brussels, or Frankfurt), more powerless as to the conditions imposed by corporations, and even more vulnerable to speculative attacks by the same financial institutions enjoying public help.

Besides the concentration of power and the decay of representative institutions, specific state policies have also been relevant. Fiscal policy increased inequality rather than seeking to correct it through redistribution. This trend is particularly remarkable in the U.S.A., from Reagan's 1981 Economic Recovery and Tax Act to G. W. Bush's tax reduction for revenues exceeding 200,000 $ (see Hacket and Pierson, 2010). The rich minority could thus more easily acquire the power and safety they were looking for through the neoliberal transformation.

Income inequality, rising in the 1920s also on account of fiscal policy, is considered by John K. Galbraith (1955) as an important, perhaps the most important, cause of the Great Crisis. Krugman (2007) points out that eighty years later the situation is similar, with the richest 10% of the

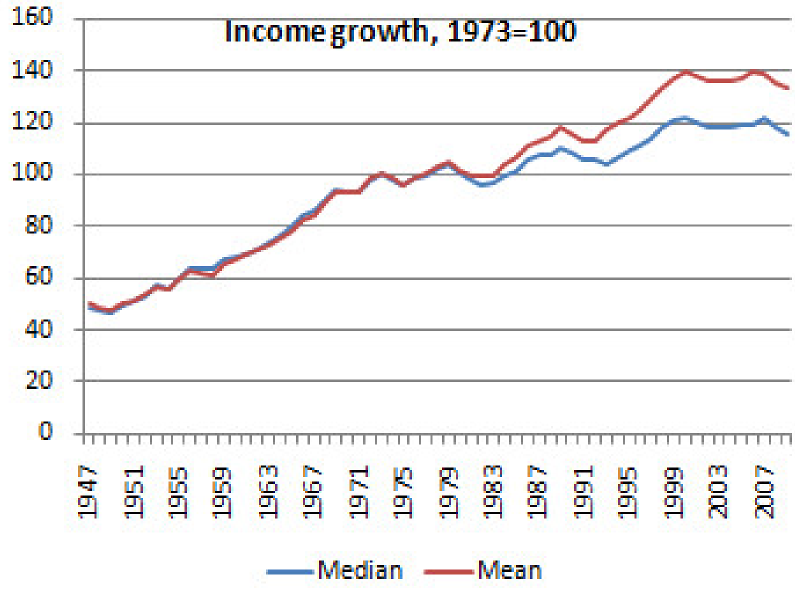

Figure 1 Paul Krugman's blog, "Prices and Plutocrats", The New York Times, Feb. 2, 2011. Source: U.S. Census Bureau.

population receiving about 44% of U.S. revenue. The growing economic inequality documented in the above diagram is obviously also politically important, being a fundamental aspect of the complex tendency denoted by the term 'plutocracy'. I made above a hint to other aspects, such as the direct and exclusive influence of economic powers on political institutions and public opinion. Also lobbyism and corruption have been long since considered as causes of the decay of democracy. The same can be said of the phenomenon described, for example, by Paul Kurtz (2000): the "corporate domination of the democratic process by means of campaign contributions blocks the emergence of independent voices willing to defend the public interest".

We are thus led to a further, crucial question: why democratic vote has never been able to reverse this kind of social and political trend? Growing economic troubles, and the want of so-called 'citizenship rights' as a consequence of cuts affecting social policies (education, health care, poor relief) have undermined not simply the equality of opportunities, but the very 'capability' of the greater part of individuals to participate in social and political life. We must add to this the absence of real alternatives in the offer by different parties competing in the public arena, and the use of mass media and Public Relations techniques in view of 'manufacturing consent' (to borrow Chomsky's expression). Relevant information is concealed, and substituted by illusory representations and expectations.

Kapp's observation can here be usefully recalled, that in the electoral competition images of candidates and slogans are immediately adapted to the results of opinion polls. Such a misuse of voters' choice theories and of new techniques of data processing amounts to a "manipulation of the sovereign electoral constituency by pseudodemocratic means" (Kapp 1985 [1967]: 87). In fact, the immediate connection between common sense and political slogans leaves no room for the authentic public opinion formation, that is a fundamental factor of an effective policy-making process (see the above reference to Lindblom's analyses).

In his foreseeing considerations on the reduction of democracy to formal electoral procedures, Schumpeter points out the similarity between electoral competition and oligopolistic market, adding that the consumer of political goods can be "fooled" more easily than any other consumer (1943: 264). A widening gap between elites and masses, as well as the reduction of society's capacity to solve its problems, were logically to be expected. No wonder, then, that not only elections are incapable of bringing about substantial changes, but many people do not even exert their right to vote. Thus a vicious circle of disempowerment has been set up, by which common citizens are less and less able to contribute to decision-making over issues of common interest.

In the market-capitalist system, in fact, there is a deep and permanent tendency to contrast democracy and freedom. In the neoliberal era, that tendency takes new shapes and grows stronger. In the last decades, the 'privatization' of politics and the need to support free-market principles through authoritarian attitudes and legislation have undermined both the public character of democracy, and equality and self-determination, which are its basic conditions (see Lösch 2008: 221-2). A double, interdependent reduction has been accomplished: that of democracy to the formal right to vote, and that of politics to a play, or a struggle, taking place within the restricted circle of the 'power elite'. The privatization of politics is in contrast with its true, and typically modern, character: that of accomplishing the social function consisting in the acknowledgment, analysis and solution of social problems. 'Social' in the sense of problems concerning society, as a whole and as an 'open system'.

Authoritarianism and inefficiency make the neoliberal order completely different from the "truly free system", the "competitive order" Friedrich Hayek was promoting when he founded the Mont Pelerin Society in 1947 (see Hayek 1980 [1948]). His expectation that the social-democratic, Keynesian, and corporatist-pluralist mood of the postwar years would be superseded by a revival of free-market orientation in the span of a generation has reached an ironic fulfilment. Hayek himself, in fact, was aware that "many of the pretending defenders of 'free enterprise' are in fact defenders of privileges and advocates of government activity in their favor" (ibid., p. 107). However, he considered these to be amendable deviations in a free-market perspective. Polanyi alludes instead to structural features and inherent tendencies of capitalism when, three years before, he addresses his criticism to the liberal (free-market) conception:

Free enterprise and private ownership are declared to be essentials of freedom. With the liberal the idea of freedom thus degenerates into a mere advocacy of free enterprise – which is today reduced to a fiction by the hard reality of giant trusts and princely monopolies (Polanyi 2001 [1944]: 265).

Besides, differently from Hayek who was committing his liberal utopia to the next generation, Polanyi was worried about the long-run free-market strategy, which was going to characterize the Pax Americana. The ideology of "liberal universalism" and the reality of "universal capitalism" (Polanyi 1945) were to be imposed internally and internationally. This policy, and the liberal ideology supporting it, did not fade away after the end of the Cold War: on the contrary. This is convincingly shown, for instance, by Peter Gowan (1999), who also stresses the political aspect of neoliberal globalization, and the influence of financial interests in U.S. world policy.

The "fiction" of "free enterprise" – and the deceptive nature of free-market propaganda – have become most apparent in present times. Indeed, we feel the need to raise a radical question: what does freedom consist of, if the democratic political sphere is seriously jeopardized if not abolished? To the extent that this is the case, Polanyi points out in his essay on Fascism (1935: 392-393), capitalism "becomes the whole of society", and "human beings are considered as producers, and as producers alone". Producers without freedom. Trying to strike a historical balance of the development of our society, from WWII to neoliberal globalization, David Harvey (2005: 70) recalls "Polanyi's fear: that the liberal (and by extension the neoliberal) utopian project could only ultimately be sustained by resort to authoritarianism".

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_Chikako Nakayama_*

FADE-OUT AND RESURGENCE OF SUBJECTIVITY IN MARKET ANALYSIS

1. Introduction

Since the economic and financial downfall of autumn 2008, we have been obliged to see negative aspects of globalization of capital: as stocks, bonds and all possible kinds of securities were dealt with internationally, creditors became literally international and debtors, once their companies went insolvency, had to confront with these international creditors beyond their national boundaries. Each nation-state as well, with 'limited' responsibility to save its own members, had to confront with this situation. But there is enough historical evidence that 'financialization' was promoted these thirty years by many nation-states in the world. It meant increased dependency of nation-states as well as respective members and companies, on non-productive sectors for their profits. The process has been structurally and institutionally constructed and maintained, so that we cannot think of the post-crisis global economy without taking these institutions and structures into consideration.

But it is also meaningful to keep in mind that this financialization is sometimes called as the rise of 'the ownership society'. It implies why so many people, not only of developed countries but of developing countries and of small open economies, became involved into the trend. This paper, thus, while taking those structural assumptions above as given, investigates the place of a concept, subjectivity, in the process of financialization. We look into this detail by focusing on a very popular book by Robert Shiller, "Irrational Exuberance". Published in 2000, this book warned the drastic fall down of stock price in America and got many readers with its right guess. Then the second edition in 2005, revised and updated by the analysis of real estate market, again anteceded our current crisis and has been getting still more readers. The term, irrational exuberance, was originally used by Alan Greenspan in 1996 in a dinner speech, the ex-chairman of the Federal Reserve Board, to describe the behavior of stock market investors, which caused precipitous drop of stock markets immediately after the speech. With this episode Shiller has come to the idea of writing the book, he says.

According to Shiller who watches the data from1870s to the present, the most recent bottom price was hit in July 1982 and since then the stock price has arisen spectacularly until 2000 especially with the rapid increase from 1992. To explain this phenomenon, he points out structural factors in Part One, cultural and psychological factors in Part Two and Three respectively, and in the following Part Four, critically investigates the so-called efficient market model with random walk theory. Finally, he shows several advices taking the assumption of volatility of stock market as given. Shiller belongs to the group of behavioral finance theorists and focuses on the importance of irrational enthusiasm in human behavior. The reasoning by Shiller, a kind of universalism with psychology in spite of his emphasis on subjectivity, has endorsed the inevitability of bubbles in the phase of financialization since the 1980s: Because psychological factor seems to be valid for everyone, his reasoning has functioned as an epistemological hindrance for many people, not to see the problems of globalization structurally. With this consideration,

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we clarify that the 'irrational exuberance' is not any principle of universal or natural law, but rather mere description or 'hindsight' of the bubble.

2. Precursors: the Austrians and Oskar Morgenstern

In the 1930s and 1940s subjectivity was picked up and was discussed in connection to foresight, to risk and uncertainty, and to apperception, which turned out to be the foundation of analysis of stock markets. We could place Oskar Morgenstern in the middle of this discussion, as we could then grasp the constellation around the concept of subjectivity. Further, Morgenstern was also an early contributor to random walk theory, in his collaboration with Granger in the 1950s and 1960s, which is the connecting point to further development in the 1970s. We sketch the early arguments here.

2-1. Subjectivity and Foresight

Subjective value, as is written in the 'Whig' or the textbook-type of narrative of history, was taken into consideration by the marginal revolution of economics in the latter half of the nineteenth Century and one of the performers of the revolution was the Austrian School of Economists. The School was founded by Carl Menger, and one of two early followers, Friedrich von Wieser, contributed to explicit formulation of subjective value. Wieser explained that '… both exchange value and use value are subjective and vary according to personal circumstances. And everyone needs to have an exact subjective estimate of the value of money to oneself', but 'this personal attitude can have no effect on the movement of goods in the great economic exchange between one economy and another'[1]. He then emphasized that '…the word value alters its original sense somewhat, when transferred from the subjective relation to wants to the objective relation to price'[2]. Actually, this was common understanding of subjectivity until the beginning of the 20th Century. Subjectivity, in this understanding, vanishes into the process of price building, when respective individual comes to some market and shows his/her valuation, bargaining with sellers or buyers. Neither Wieser himself nor other Austrians after that explicitly asked whether it would hold true regardless of the number of participants in the market, focusing rather on the function of markets themselves absorbing individuals' subjective value.

Exceptionally, Morgenstern, who was trained under the tradition of the Austrian School, paid attention to the economic individuals hidden behind the subjective value theory.

'Böhm-Bawerk and Wieser have stated clear enough that prices are results from different activities of separate individuals and their wills. But this side of price phenomena became soon out of consideration as "self-evident" and prices got to be operated as independent areas, separate from judgments and acts of economic subjects standing behind. … But it all matters for the theory of foresight, to come back to the actual behaviors of individuals and to find out the base for the direction of acts of households (Wirtschafter in German) and entrepreneurs. Further it is necessary to prove whether the point of reference (Orientierungspunkt in German) which founds together in its system of subjective rationality of economic behaviors is eventually changeable or stiff'[3].

This idea was shown in his treatise of economic foresight in 1928. According to Morgenstern, subjective value judgments of separate individuals of households and entrepreneurs be-

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[1] F. Wieser, 1893, Natural Value, tras., by Christian A. Malloch, ed., by William Smart, London: MacMillan and Co., p.50.

[2] Ibid., p.51.

[3] Morgenstern 1928. p. 25-26. (tentative English translation by Nakayama).

come important in the theory of foresight and the changeability of the foundation of subjective rationality must be examined as the 'point of reference'.

Then Morgenstern investigated this 'point of reference' and discussed that it is typically shown in prices of goods, but that these prices are resulting data of other individuals' acts, not fully given to individuals but only as some probability, corresponding to their 'subjective rationality'[4]. Morgenstern then discussed, as the case of a household, this subjective rationality could stably be reached in equilibrium, but this equilibrium itself is usually grasped to have a system of rhythmical wave, and what is more, if there comes some change into unknown direction for an individual, it would lead to reduction of rationality of his behaviors, which consequently also affects the reduction of rationality of others' behaviors. According to Morgenstern, this kind of change in unknown directions or 'economic fluctuations' can occur not only by price changes, but also owing to many kinds of changes of particular quantities such as traffic, harvest, quantity of money, volume of production, for which all the people are responsible. These are causes for the possibility of falling into disequilibrium process.

In this connection, Morgenstern gave a footnote of reference to Pigou's book, "Industrial Fluctuation" (1927), and did not forget to add that the fluctuations could not necessarily be approached in psychological theories, but that there were also cases of fluctuations with objective circumstances like new method of production, inventions, or catastrophe. We can see that Morgenstern was conscious of English contributions as well as those of the Austrians, in thinking of subjective or psychological factors. Attempting to overcome a simple interpretation of subjectivity absorbed into objectivity of equilibrium, he also posed the question whether the equilibrium itself or its objectivity could necessarily be stable. Here the subjective rationality of producers or entrepreneurs also became important.

In this connection, it deserves our attention that Morgenstern briefly mentioned the concept of speculation in his analysis of the impact of the change of subjective rationality on the objective rationality, though there was some confusion in his usage of the distinction of households and entrepreneurs.

"… But the reduced subjective rationality of behavior of some household indicates the reduced objective rationality of the whole system, from which an 'error' giving further impact, arises. This 'error' can mean some 'profit' of another one, that is, it can result in an over-proportional transmission of purchasing power into another control power, or it can give rise to pure loss. … The (above-mentioned) possibility is that I have a monopoly over some knowledge in the change of data and the existence of this monopoly is unknown… But… the value of my monopoly continuously decreases. This case is not as hypothetical as it might seem: it plays a considerable role in the stock-exchange speculation".

Here, not markets in general but those of stock-exchange speculation were explicitly mentioned and with it, subjective rationality was connected to the chance of getting more profit from the inequality or monopoly of knowledge and information of changing data. If someone knows more about the change of some data, it would bring him more profit from the 'error' of someone else. There some disequilibrium would be caused by reduced subjective rationality. But as the title of his treatise shows, Morgenstern did not look into the issue of speculation itself in detail and focused on the problem or impossibility of foresight from this perspective. Still, it is worthwhile to notice that Morgenstern was led to the concept of speculation in relation to subjectivity.

[4] Morgenstern 1928. P. 27-28.

2-2. Subjectivity in Risk and Uncertainty

Then, subjectivity became important in line with the time element or with future events in considering speculation. Morgenstern, after publishing the treatise above, developed his direction of research especially with the help of acquaintance with F. H. Knight who had made a famous distinction of concepts of risk and uncertainty[5], and published an article in Zeitschrift für Nationalökonomie, examining the relation between perfect foresight and equilibrium in 1935, where he argued that these two concepts did not come along together. As is known, this article was translated into English by Knight and was published in a journal for English readers, which confirms Knight's high valuation of this article. According to Morgenstern, there would come no equilibrium but rather contradiction if more than two 'homo economics' had perfect foresight, who would seek for maximization of profit respectively for themselves. Seen in retrospect, what bothered Morgenstern most was the conflict of interests of those two homo economics, not being complementary. In this sense he came into an impasse, not being able to formulate mixed strategies of allocating probability for each economic player with opposing or cooperative interests. But he went deeper into the question whether subjectivity could possibly penetrate itself even in the 'social' economy with more than two individuals.

More importance of this article can be laid in that Morgenstern opened a way to look into the meaning of subjectivity: he articulated the problem of subjectivity into several categories of risk, uncertainty and expectation, in relate to the degree of foresight and to the degree of 'effectiveness' of foresight. In this sense, we can also see some influence of J. M. Keynes and of Karl Menger, as well as Knight, on Morgenstern, both of whose names were explicit in the article. As to the influence of Keynes, Morgenstern, after classifying who of economic theorists had ever thought of perfect foresight with reservation, wondered critically whether Keynes, in his Treatise on Money, thought of imperfect foresight in his mentioning of 'correct forecasting' or 'accurate forecasting'[6]. Morgenstern thought that it was not a problem of accuracy or correctness, if there was not an assumption of perfect forecasting. Morgenstern introduced the distinction between technical "foreseeability" and effective foresight instead and argued that the latter could be less or more than the former. This effective foresight could be seen as a variant of subjectivity. The difference of effective foresight came, 'from the technical data obtainable from time to time, … according to the degree of actual employment of the economic science'[7]. This statement reminds us of his early idea that the degree of diffusion of knowledge or information on some data determined the degree of penetration of subjective rationality.

Further, in exploring the meaning of imperfect foresight, Morgenstern managed to work out the concept of expectation, again as another variant of subjectivity.

'With imperfect foresight, with the possibility of other prices, e.g., inability to eliminate factors of disturbance in my expectation, it is always conceivable that I, on the grounds of temperament, of caprice, of daring, etc. form my expectation differently than technical foreseeability would, perhaps, make it necessary for me. For example, I am inclined at one time and at another I am not inclined to undergo a risk. In other words, where really effective final foresight is lacking, the element of expectation appears … Expectation depends, thus, only to a limited degree on foresight'[8] .

Here it is shown that 'effective' foresight could be determined not only by the knowledge of economic theory but also influenced by expectations of individuals, which were to be formed by respective attitude towards/ against some risk in each case. In this connection, by the way,

[5] About the detail of this acquaintance and their mutual influence, see Nakayama 2010.

[6] Morgenstern 1935/ 1976, p. 170.

[7] Ibid., p. 178.

[8] Morgenstern 1935/ 1976, pp. 189-190. Italics are given in the original text.

the contributive articles of Karl Menger on risk and uncertainty were mentioned, which showed direct influence on Morgenstern[9].

2-3. Subjectivity as Apperception

Further variant of subjectivity was considered in relation to individuals' apperception. In 1940, Knight published an article, '"What is Truth" in Economics?'. Apparently it was a critical review article of a book by T. W. Hutchison, The Significance and Basic Postulates of Economic Theory published in 1938[10]. The critic was sharply directed to the inconsistency of Hutchison's methodology, and if we take the fact into consideration that Hutchison investigated Morgenstern's article of 1935 considerably and explicitly there, we might be able to see Knight's article as a defense of Morgenstern from misleading interpretation by Hutchison. Actually, the chapter where Hutchison argued the distinction between 'subjective' and 'objective' rationality was originally published in the same journal Zeitschrift für Nationalökonomie in 1937 under the title of 'expectation and rational conduct', which implies his direct consciousness of Morgenstern's contribution two years before. For Knight, even though Hutchison attempted to annihilate or at least to ridicule Wieser's psychological method[11] , the analysis was too naïve and unsuccessful, so that Hutchison rather retreated to Wieser's position from Morgenstern's one.

But what is more interesting is that Knight developed his own view of subjectivity in this article. Without using the very term of subjectivity, he examined its meaning in the following perspective, '… what we perceive, or are able to perceive, is largely a matter of the "apperceptive mass" — and this involves both expectation and interests'[12] . That is, for Knight the function of one's perception of external world and one's subsequent judgment must be explored when inner or psychological value theory is to be discussed. In so doing, as the title of this article implies, Knight asked the question, 'What is truth?' in relate to observation and inference in economics. For this purpose, he distinguished three categories of knowledge economics was supposed to deal with: The first is knowledge of the external world and the second is the 'truths of logic and mathematics', while the third, the most important here, being knowledge of human conduct. And he examined the meaning of subjectivity for the second and for the third categories, and came to the understanding that the contrast of subjective and objective was neither self-evident nor absolute.

Knight started, in connection to the second category, with examining the most basic proposition of economics that individuals maximize their satisfaction or their utility and doubted the rigorousness of it, saying that '… in the absence of any technique of measurement, there is no clear differentiation between a subjective state and an objective quality, and the reference of an experience to the external world or to the mind is shifting and largely arbitrary'. Then he went on to the third category and also argued critically, that a really thoroughgoing laisser-faire individualism accepting individual preferences was even theoretically impossible under any conditions fundamentally.

[9] Morgenstern mentioned Menger's article of 1934 and his book of the same year (Ibid., p. 175 and p. 180.

[10] For researchers on Hutchison, who evaluate this book positive, find Knight's article unfairly critical to him. 'At this distance of time one might say that Knight was perhaps too severe in his attack on such a young and promising academic. … However, … Knight's criticism created a good deal of general interest, among fellow economists, in the book of a little-known economist from England!' (Ghosh 2007, p. 164). See also Hart 2003.

[11] Knight quoted a phrase of Hutchison where Hutchison picked up a sentence of Wieser:
' "We can observe natural phenomena only from outside, but ourselves from within". (This sentence is taken from Wieser.) The employment of this inner observation is the psychological method' (This phrase is given by Hutchison, following Wieser's own terminology).' (Knight 1940, p. 15)

[12] Kight 1940, p. 11.

'…it is a fact to be kept in mind and recognized as a condition of talking sense about human interests, that everyone, habitually and inevitably, makes a distinction, which is vital, however vague it may be, between personal preferences and values assumed to be objective. … No discussion of group action can be carried on in propositions which merely state what "I want"[13].

As is shown here, individuals make a distinction between their preference or satisfaction of their own wants on one hand and social value on the other. Though this was rather an external critic, Knight fundamentally denied the idea that subjectivity in the sense of individual preference, once confronted with others and collected into a society, would naturally be absorbed or integrated into objectivity.

Further, under these assumptions, he discussed the problem of prediction or the limitations of the possibility of prediction, and argued that the basis of prediction would be social psychology dependent not only on statistical extrapolation but also on individuals' insight and interpretation what was socially right answers and what they themselves could do with their competence. This corresponds to the idea of Morgenstern that expectation depends on the foresight to a limited degree.

3. Subjectivity fading-out in Capital Market

As was discussed in the previous part, the concept of subjectivity itself was explored by a few economists to a considerable extent in the 1930s and at the beginning of the 1940s, and was recognized as an important issue in the analysis of fluctuations and disequilibrium. But this view was not taken over afterwards: main stream economics was formulated around the concept of equilibrium, including that of business cycles and fluctuations. In the Austrian School of Economics, for example, Hayek's version of market analysis became much more popular than that of Morgenstern[14] , the former of which basically believed in the function of market to convey all the necessary information to achieve the objectivity and order of a society. This idea has survived for several decades and has got a name, the efficient market model, at the beginning of 1970s, which was discussed as an issue of capital market. In our perspective, this was the phase of fade-out of subjectivity in the market analysis, and we are going to draw some auxiliary line of its history from the previous chapter, since those who asserted this model did not take much care of the history of its development.

Before going into this detail, it would be useful to put a reservation that disequilibrium had been formulated and discussed much in the field of economic history, not the history of economics, especially after the Great Depression of 1929, using the concept of 'bubble' of speculation[15] . Rather exceptionally, H. P. Minsky took this idea over and made contributions to economic theory around the same time as the efficient market model arose, in his writing of interpretation of Keynes. Since this contribution has explicit analysis of expectation and speculation, we briefly sketched Minsky's idea in the first section.

3-1. Keynes a la Minsky?: towards an analysis of speculation

According to Minsky, Keynesian theory rests on a speculative-financial paradigm with sophisticated view about uncertainty[16]. Minsky mainly analyzed the representative work of Keynes,

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[13] Ibid, p. 23.

[14] Morgenstern, at first glance, also seemed to give up his research interests in the collaboration with von Neumann in the 1940s and in its outcome, The Theory of Games and Economic Behavior published in 1944, where the authors decided themselves not to deal explicitly with the case of gambling. But in fact, Morgenstern did not lose his own interest and expressed it in his later works, such as in those which dealt with stock markets, especially with the focus on the international comparison and mutual influences.

[15] For example, see several contributions by C. Kindleburger.

[16] Minsky 1975, pp. 57- 58.

The General Theory of 1936, but saw some consistency since early writings like A Treatise on Probability of 1921. What attracts our attention here is the statements concerning subjectivity and objectivity and we cannot dwell too deeply on the issue of how far Minsky's interpretation of Keynes was faithful to the original intention of Keynes or not. So we would just check the main idea of 'Keynes a la Minsky'.

In order to introduce the concept of speculation, Minsky introduced two kinds of subjectivity around Keynes' concept of probability shown in A Treatise on Probability: The first was the case where 'no precise numerical value can be objectively assigned' but decisions need to be made, as if there were such a value, which was called, 'subjective probabilities'[17]. Such subjective probabilities were inevitably assigned on some insufficient knowledge and said to be very changeable.

Then there was another kind of subjectivity, which reminds us of Morgenstern's idea of subjectivity.

'This is the weight or confidence with which the assigned probability is used as a guide to action or decision. … Keynes viewed an accretion of evidence as increasing the weight or confidence attached to a proposition. But in the context of the economic problems discussed in The General Theory of decision-making for the future by households, firms, and banks, events, such as crises, can radically diminish the confidence with which views of the world are held'[18] .

Minsky then went on to say that this dual-decision scheme was not necessarily important and that what were essential here were rather elements of time and uncertainty, and a sophisticated philosophical framework of decision on the basis of imperfect knowledge. This assertion was further paraphrased that Keynes 'held that there was no way of replacing this uncertainty with certainty equivalents'[19], and that the probabilistic propositions and the weight change in some consistent manner. It means that the weight or the second type of subjectivity cannot be represented by any fixed amount of value, just as the very idea of insurance would do. And it further implies that the second type of subjectivity can never be the same thing as the objective frame of reference of the first type.

According to Minsky, this 'decision-making under uncertainty' was the central theme of The General Theory of Keynes and speculation came to the center of the analysis. At this point, Keynes's analysis became different from Morgenstern's mere mentioning of this concept and it was also separated from the analysis of subjectivity. And because of this uncertainty and changeability here, people rely on money —value in itself, Keynes claimed.

'… the world is an uncertain world… Furthermore, this is a capitalist world in which units have portfolios —assets and liabilities which embody yesterday's views and both earn and commit today's and tomorrow's receipts. In a world with uncertainty, portfolios are of necessity speculative. The demand for money as a store of value exists because in a world where speculation cannot be avoided —where to decide is to place a bet — money is not barren. … money in our world has attributes of an insurance policy, in that possession of money protects against the repercussions of particular undesirable contingencies'[20].

In this connection, we mention Keynes' conception of expectation, which had been Keynes' variant of subjectivity and which was not explicitly discussed in Minsky's interpretation. In a chapter where Keynes discussed the concept of long-term expectation, he listed up several factors that created problems for securing sufficient investment. This is partly a very famous part

[17] Minsky 1975, pp. 65.
[18] Ibid., p. 65.
[19] Ibid., p. 66.
[20] Ibid., p. 77.

where the example of so-called beauty contest or prettiest faces was explained. With these examples, Keynes asserted that professional investment with the best genuine long –term expectation was not necessarily successful and these considerations should be within the sight of economists. He put this explanation with the view that 'the risk of the predominance of speculation does increase', where speculation meant 'the activity of forecasting the psychology of the market', and enterprise was 'for the activity of forecasting the prospective yield of assets over their whole life'[21] . By the way, it also has some relation to Knight's idea we discussed in the previous part that the value system in a society concerning expectation had to take social psychology in consideration.

Anyway, Keynes drew a strong claim from here that,

'Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done'[22] .

Though this part had much been quoted in Keynes literatures, including Minsky's, it was not until recently that it was understood in line with Minsky's perspective. This was mainly because Minsky's writings drew much attention only recently.

3-2. Fade-out of the subjectivity and of history of economics?

Now we look into the idea of efficient market model. As a common understanding, it was said to have explicitly been formulated by a survey article by E. F. Fama in 1970, which summarized the presentation at a joint session with Econometric Society, in an annual Meeting of the American Finance Association at the end of 1969. Fama reviewed the theoretical and empirical literature on the efficient market model, in order mainly to examine 'the adjustment of security prices to relevant information subsets'[23]. Here the conducting figure seems to be the price that adjusts itself to the market conditions. But we can see that the main idea of the model was shown at the beginning of the article as follows.

'The primary role of the capital market is allocation of ownership of the economy's capital stock. In general terms, the ideal is a market in which prices provide accurate signals for resource allocation: that is, a market in which firms can make production-investment decisions, and investors can choose among securities that represent ownership of firms' activities …. A market in which prices always "fully reflect" available information is called "efficient"[24].

In these sentences, the idea was distinctly expressed that capital market was the one to efficiently allocate the ownership of some society and that the keystone of this efficiency was whether prices "fully reflect" available information. The main interested figure was the owners of the capitals (that is, investors) rather than price itself, as Keynes more directly considered, even though they were not appearing here in front of the analysis.

Fama, with some reservation that efficiency can be said to have been attained if 'sufficient numbers of investors have ready access to available information'[25], introduced several conditions of the theory to test this efficiency empirically: expected return or fair game model, the submartingale model, the random walk, respectively. After brief explanation of these conditions, he entered into the survey of empirical research as the latter part, with types of weak, semi-strong

[21] Keynes 1936/ 2008, p. 103.
[22] Ibid..
[23] Fama 1970, p. 383.
[24] Ibid.
[25] Ibid., p. 388..

and strong form tests. But we check how the concept of subjectivity was hidden in these three conditions.

The first condition, expected return model meant a rather weak assumption that the conditions of market equilibrium can 'somehow' be stated in terms of expected returns, which was looser than a more rigorous theoretical meaning of 'full reflection' of information by market prices. As Fama admitted that, in the concept of expected returns, the purely mathematical concept of expected value seemed to get a higher status here than would be necessity, it meant that subjectivity in the idea of expected returns was 'somehow' excluded from this model. This model presumed that the investors would expect in advance the very returns which would lead to the market equilibrium.

Then the second condition, the sub-martingale model, 'is to say nothing more than that the expected value of next period's price, as projected on the basis of the information, is equal or greater than the current price'[26]. Fama seemed to treat this as self-evident condition, giving one footnote that the holding of 'one security and cash' could be more profitable than 'buy-and-hold' of one security since the former could better avoid eventual losses, and that the second condition did not exclude this possibility. Even though there should be empirical possibilities that expected returns be negative, he did not find necessity to re-consider this theoretical condition.

The third condition, the random walk model, implied, that successive price changes – at least successive one-period returns -- were independent and identically distributed. In a strong assumption it would mean that the distribution of expected returns on security be constant, independent of the available information. And Fama argued that it was best to regard this third condition as an extension of the first, which meant that the price change would be random but economic agents' expectation would corresponds to the market in the long run and that markets could be seen to work automatically and efficiently. He added that '… initial large change at least represents an unbiased adjustment to the ultimate price effects of information, and this is sufficient for the expected return efficient markets model.'[27] This is of course in line with the assumptions of rational expectations[28]. Hence subjectivity did not have much meaning for efficient market model, neither in the random walk model nor in the assumptions of expectation as a definition, though it could be possible that subjectivity has some influence on the information treated as given, in making random walk and in forming expectations.

Here we would like to add one point of attention: Fama did not pay much attention to the pre-history of the development of this model or made a different narrative from the common history of economic thoughts. He mentioned such names as Kendall, Osbourne, Cootner, or Louis Bachelier as their precursors to have contributed to random walk model of stock markets, but the contribution was rather in empirical and technical senses. In the references, we certainly find an article by Morgenstern together with Granger, but it was not used explicitly. In order to fill this gap, we now consult with another contribution to random walk model made by B. Malkiel around the same time.

3-3. Keynes and Morgenstern a la Malkiel: The Castle-in-the-Air Theory

When Fama made a basic contribution to the definition of market efficiency theory and Minsky was reassessing Keynes's The General Theory, B. G. Malkiel published his best-seller book, Random Walk Down Wall Street (1973), with which the concept of 'random walk' became

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[26] Ibid., p. 386.
[27] Fama 1970., p.
[28] We can see this connection explicitly in Shiller 1978, which dealt with the rational expectation theories in a critical perspective.

very popular in the field of market analysis, not only for professional economists but also for the investing public. Seen from theoretical and empirical perspectives, he approximately followed the contributions of Fama, as has become clear in his another article of the same period[29]. But Malkiel made his own contribution to the development of the theory: In his writings, we can see more clearly the connection to the history of economic thoughts and to the concept of subjectivity. Further Malkiel showed a more clear direction that the analysis of subjectivity in the stock markets (including negative judgment though) was for the investors, and also sneaked some ethical implication in his analysis.

Malkiel explained at the beginning of this book, a random walk is one,

'…in which future steps or directions cannot be predicted on the basis of past actions. When the term is applied to the stock market, it means that short-run changes in stock prices cannot be predicted. … Taken to its logical extreme, it means that a blindfolded monkey throwing darts at a newspaper's financial pages could select a portfolio that would do just as well as one carefully selected by the experts'[30] .

This humorous tone like this example of monkey' darts seemed to be strategically put, as this book was directed to the experts of finance and to general readers who want to enter into the world of portfolio from the side of an academic scholar who himself does well with it, how to do. This stance has been taken over until nowadays by those who have similar career as Malkiel. Since this time, in short, the random walk, which had originally presumed the limit of prediction as a legacy of Morgenstern, became in line with the efficient functioning of market and hence at variance with irrationality, and this implied the separation of the concept of subjectivity from random walk theory.

Actually, Malkiel gave a short survey of the history of economic theories around the concept of random walk model: he made the theoretical contrast explicit between the 'Firm Foundations' and 'Castles in the Air', the former of which argued that investment instrument has 'firm anchor of something called intrinsic value'[31] , while the latter opposed to this kind of idea. He mainly mentioned Keynes as the representative of the second one of Castles-in-the-Air, with the very example of beauty contest.

'Keynes described the playing of the stock market…: It is analogous to entering a newspaper beauty-judging contest… The smart player recognizes that personal criteria of beauty are irrelevant in determining the contest winner. A better strategy is to select those faces the other players are likely to fancy. … The newspaper-contest analogy represents the ultimate form of the castle-in-the-air theory of price determination. An investment is worth a certain price to a buyer because she expects to sell it to someone else at a higher price. The investment, in other words, holds itself up by its own bootstraps'[32] .

What Keynes had described as the instability of expectations, became an example of good opportunity for speculation. In this connection, Malkiel classified Morgenstern as the early leader together with Keynes, as well as with Shiller who used mass (crowd) psychology in the 'so-called behavioral theories of the stock market'. Though it was an incorrect and rough understanding of Morgenstern by Malkiel from our perspective, it is remarkable that he made a grouping of theorists who took consideration of psychological or subjective factors together. It was classified as those who concentrated on irrational and illogical factors. As was written as follows, 'the psychological' was placed against 'the logical' by Malkiel.

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[29] Malkiel 2003. This is an article with which Malkiel rewrote his book in a more academic way.
[30] Malkiel 1973/ 2003, p. 24.
[31] Malkiel 1973/ 2003, p. 29.
[32] Ibid, pp. 31-32.

'… there have always been both logical and psychological theories of stock prices, and earlier generations of economists, such as John Maynard Keynes, stressed the importance of the fallibility of human decision making. The efficient-market theory was developed on the assumption that market participants are highly rational. But particularly during the 1990s and early 2000s, psychologists such as Daniel Kahneman and financial economists in increasing numbers have argued that the decisions of many investors are strongly influenced by behavioral characteristics such as overconfidence, overreaction, attraction to fashions and fads, and even hubris. … [33]'

It is evident in this quotation that subjectivity in the sense of irrationality, shown in overconfidence, overreaction, attraction to superficial things like fashions, fads, or hubris, are important in deciding stock prices, even though those kinds of prices are 'fallible' in comparison to rationality. Malkiel attributed this subjectivity to the dependent decision of the mass, as Keynes typically showed in his example of beauty contest above. But thinking back to the thoughts of precursors in the 1930s, subjectivity itself contains individual factors like overconfidence etc., so it cannot be identified with irrationality of the mass, and should be seen as a different sort of rationality of individuals, independent of the mass. But this reasoning was in fact not unique in Malkiel but seemed rather to be shared by theorists of efficient market models, as well as those of behavioral science like Shiller. In this sense, the argument of subjectivity potentially went back to a simpler stage in this very phase of fade-out.

Further, it deserves attention that Malkiel distinguished speculation from investment. According to him, what he clarifies in his book was the activity of investing, in the sense of 'a method of purchasing assets to gain profit in the form of reasonably predictable income (dividends, interest or rentals) and/ or appreciation over the long term'[34]. In his classification, investment is a rational, logical and reasonable activity and is different from that of speculating, which is psychological, irrational and more directly, bad. He almost reproached speculative bubbles that they were manipulated by savvy institutions and pros and that too many investors were lazy and careless. For Malkiel, even though he did not use the very term, subjectivity was at the heart of this nasty phenomenon. For him, the more cautious investors become, the more predictable stock markets become, and hence the more efficient, which was the 'good' functioning of investment. This was, so to speak, an ethical version of efficient market model.

4. Resurgence of Subjectivity

4-1. Shiller: From Irrational exuberance to Animal Spirit

The writings of Shiller appeared as a symbol of just another side of the same coin as Malkiel's, but with explicit usage of psychological factors. Shiller posed the same questions as did theorists of efficient market models, whether stock market prices rightly convey all the necessary information and answered negatively. In a review article with the very title 'from efficient markets theory to behavioral finance' in 2003, Shiller remembered that the efficient markets theory reached at its 'height of dominance in academic circles around the 1970s using rational expectations, with Merton, Lucas, etc.. But then Shiller went on to discuss that the volatility anomaly was so deep that many theoretical attempts appeared in the 1980s to revise the theory and still to show that some inefficiency of the stock market did not damage the theory as a whole. Shiller concluded that,

[33] Malkiel 1973/ 2003, p. 243.
[34] Malkiel 1973/ 2003., p. 26.

'… the level of volatility of the overall stock market cannot be well explained with any variant of the efficient markets model in which stock prices are formed by looking at the present discounted value of future returns. There are many ways to tinker with the discount rates in the present value formulas…'[35].

This was the starting point for 'academic discussion' of economic theorists in the 1990s to have shifted away from econometric analyses of time series toward 'developing models of human psychology as it relates to financial markets'[36]. From our point of view, it was the resurgence of subjectivity in the sense of psychology. The starting point of behavioral science and of Shiller's own contribution was opened up by the same dichotomy as efficient market theories, that is, the logical or the psychological. Shiller just shifted his emphasis on the other pole from that of efficient market theorists, and claimed that the volatility of stock markets exceeded the logical expectations so that the psychological --a different kind of universal character from logical universality- factor should become the only possible tool for analysis. Here the consideration for the empirical deviation was 'a priori' excluded in the assumption of rational expectation and was replaced by 'the psychological', supported by cognitive psychology. Empirically refuting outcomes to the efficiency of stock markets did hence not negate the model itself but rather let theorists turn away from the previous type and motivated them towards some other type of model. This kind of attitude could be seen as science-oriented or as the belief that economics should be a branch of science.

Shiller placed his own best-seller book, Irrational Exuberance published in 2000, as a following attempt of very old 'feedback models' which dated back to some book of 1637 (as was explained as the year of the peak of the tulip-mania) by anonymous author and which had never got any academic fame since then. The feedback model was defined as the mechanism, 'when speculative prices go up, creating successes for some investors, this may attract public attention, promote word-of-mouth enthusiasm, and heighten expectations for further price increases. … The feedback that propelled the bubble carries the seeds of its own destruction'[37]. This was evidently another variant of Keynes' expectation, dependent of others' expectation shown in the example of beauty-contest. In this way, Shiller combined the concept of expectations with that of bubble explicitly, analyzed until then mostly in the field of economic history only. '… human interactions, the essential cause of speculative bubbles, appear to recur across centuries and across countries: they reflect fundamental parameters of human behavior'[38].

In this connection, Shiller analyzed the Ponzi scheme which functioned as a further evidence to support feedback model. He explained that the speculative bubbles of real world stock markets resembled Ponzi schemes and that the success of Ponzi schemes implied the success of speculative bubbles. Indeed, this was the essence of 'irrational exuberance' which was amplified by the price rise itself, even though Shiller went on to the discussion of media or of cultural change more generally. By the way, though Shiller did not mention Minsky in his book or articles, the usage of the term Ponzi dated back to Minsky's analysis of speculation[39]. It was defined to be some finance 'in which the funds to pay interest and dividends are obtained by borrowing'[40] and was classified in the final step following the first, hedge financing, and the second,

[35] Shiller 2003, p. 90.
[36] Shiller 2003, p. 90.
[37] Shiller 2003, p. 91.
[38] Ibid., p. 94.
[39] Remembering that the usage of the term was criticized by elder economic theorists, Minsky explained, 'The use of the term Ponzi for financing relations which involve the capitalization of interest was originally a joke that became a fixture in my way of describing things' (Minsky 1986/ 2008., p. 225.).
[40] Ibid..

speculative financing[41]. Though Shiller's usage was not very rigorous in comparison to Minsky's formulation, Shiller embodied himself as the theoretical mixture of Morgenstern type of the Austrians and of Minsky type of Keynesian. And from our viewpoint of subjectivity, this concept re-appeared in the front stage of economic theories with Shiller, appealing its universal character as a scientific approach, while resorting also to a more general public than narrow academic circles, just like Malkiel did.

4-2. The Intellectual Context: Support for 'the Ownership Society'

Following the historical transition of the narratives around subjectivity in this paper, we have confirmed that Shiller's reasoning was neither novel nor original, but rather some kind of resurgence of rather old ideas of subjectivity in the sense of Morgenstern-Keynes-a –la-Minsky type of irrationality and instability in stock markets. It was certainly better equipped with the conceptual devise for speculation in the capital market and more distinctly directed towards investors than those precursors had done, taking advantage of learning from ideas and assumptions of efficient market theorists including Malkiel. Shiller used the same dichotomy as these theorists did and regarded the psychological element as universal to all mankind, indifferent to the social status or to the quantity of property. In that sense, Shiller provided scientific character for his reasoning. It is hence almost no wonder that he, in a more recent book collaborating with Akerlof, went on to the analysis of animal spirit, which pointed out another psychological and universal nature of mankind for speculation or for economic activities in general.

As we mentioned at the beginning, Shiller rather warned the dangerous aspect of irrational exuberance or of this kind of subjectivity, but he described it as a 'natural' psychological trait as to follow the natural law. Hence, it functioned to persuade that we could not avoid using this character and falling into the mechanism of feedback; which meant that he endorsed the inevitability of bubbles in the phase of financialization since the 1980s and that he gave the readers an epistemological hindrance, not to see the problems of globalization structurally. So, the resurgence of subjectivity in market analysis, not only in the case of Shiller but more generally, repeatedly supports 'the ownership society' as a result.

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EXTERNAL DEBT DYNAMICS AS A FACTOR OF THE CURRENT ACCOUNT SUSTAINABILITY IN THE CENTRAL AND EASTERN EUROPEAN COUNTRIES

Abstract

Current accounts have diverged substantially among the Central and Eastern European Countries (CEECs). This divergence has raised concerns about the sustainability of countries' external indebtedness. In this paper the external imbalances of CEE economies are discussed. A vector autoregression (VAR) model is used to test the causal relationships between the current account and the external debt in five CEECs. Namely, using VAR framework, Granger causality testing is performed and variance decomposition is undertaken to see the relative contribution of three different sources of debt (government, banking sector or corporate sector's debt) to the current account deficits. The results of the research show that high external debt accumulation may be a major cause of current accounts instability in CEECs. The recommendations to decrease dependence of the CEE economies on external financing to prevent national economies from currency, debt and financial crises are suggested.

Key words: external imbalances, current account deficits, capital flows, external debt

After the European Union accession, the Central and Eastern European countries (CEECs) have been running large external imbalances which facilitated a more rapid convergence rate in economic development of these countries compared with other EU members. Sizeable and persistent current account deficits, experienced by most of the CEE countries since the beginning of the transition process, increasingly cause concerns regarding the sustainability of the countries' external balances. Certain factors, which contribute to the country's saving and investment, set the new EU members apart from other emerging market economies: transition from socialism required higher investment owing to an overhauling of the existing capital stock and institutional reforms associated with the EU membership.

By EU accession CEE countries fully liberalized their capital accounts during the transition period. Robust economic growth was accompanied by substantial capital inflows and large current account deficits in some countries. This is a standard case in economic theory explaining countries with insufficient domestic savings employing imported capital to increase investments and finance economic growth. With a lack of absorptive capacity of the CEE financial systems to properly channel the inflowing capital, an ensuing over-investment, and consumption boom gave rise to current account deficits. Persistently high level of capital inflows needed to finance these deficits in the CEE countries caused a substantial increase in the level of external liabili-

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ties, particularly external debt. In the 90's large current account imbalances and a high level of external debt in emerging markets triggered financial crises: balance of payments or debt crises.

External imbalances in the CEE countries and the question whether recent current account deficits as well as level of external debt are sustainable are becoming a key policy issue for these countries. Current account deficits must be carefully monitored, since they might be especially dangerous for the countries which do not posses substantial reserve assets and whose currencies are not actively used in international settlements. Such countries include emerging market economies, the CEECs being among them (except for the Slovak Republic and Estonia who joined the eurozone). In case of instability of the national financial systems or international capital markets turbulence, the presence of the current account deficit leads to a rapid depreciation of the national currency (Hungary and Ukraine in 2008, Belarus – 2011), devaluation of the national assets, sharp increase of the debt-servicing burden (public and private) and, consequently, to rising costs of production, losing national competitiveness and falling living standards. This is exactly why the problem of the current account sustainability is important.

Prior to EU membership large capital inflows financing current accounts were inevitable in the transition period when capital markets became open, exchange rate flexibility was limited and interest rates were higher compared to the EU levels. The consumer price inflation in all CEE significantly decreased during the transition period. Interest rates declined but real interest rates increased to relatively high levels during the process of disinflation. Given the sufficient interest rate differentials, compensating investors for exchange rate risk, huge amount of foreign capital was attracted to CEE countries. Liberalization associated with the transitional process implied a higher level of inflation for the domestic country compared to its trading partners, leading to the appreciation of the real exchange rate under the policy of fixed nominal exchange rate. This created a macroeconomic pressure on the banking system: real appreciation means that the depreciation of the local currency is smaller than the inflation differential, which gave a strong incentive both for companies and for banks to refinance themselves in foreign currency, as Schröder (2001) points out. Capital inflows led to growth of foreign exchange denominated lending. This in turn led to the external debt accumulation. Such lending might be interrupted by real depreciation as a consequence of correcting accumulated imbalances which arose as a result of previous real appreciation.

Analysis of the sources, magnitude and composition of capital flows is extremely important for determining if the balance of payments is sustainable. Clearly, when countries simultaneously offer high real interest rates and the prospect of steady real appreciation, they are likely to attract substantial portfolio and shorter-term capital inflows. The non-FDI inflows - portfolio and other investments - usually pose more difficulties to monetary authorities in terms of economic policy, external vulnerability, and financial stability than direct investment flows. It is generally recognized that FDI are much more stable compared to portfolio and other investments: FDI flows have provided transition economies with more opportunities to share risk with and obtain technology from their trading partners than have non-FDI flows. The profitability of the FDI is likely to be linked to the performance of the domestic economy: higher return on FDI is likely to be associated with a higher rate of domestic output growth, making repayments more affordable as pointed out by Lane and Milesi-Ferretti (2007). Moreover, inflow of the FDI is much less dangerous for the balance of payments sustainability, as these investments can't be withdrawn rapidly, as opposed to portfolio and other investments.

Given the substantial interest rate differentials in CEE countries large interest-rate-sensitive financial inflows (portfolio and financial credit flows), which can be highly volatile, contributed to credit booms, complicating monetary and exchange rate policies. As the burden of interest on debt and principal repayments increases over time, borrowing countries need to ensure that trade surpluses allow the external position to stabilize or decline, relative to the size of economy. The size of the needed trade surpluses depends on the outstanding stock of accumulated liabilities and economic growth. However, as will be shown in the following analysis, the external borrowing mainly in the form of financial credits of the banking sector boosted consumption in CEE, the major pat of which was spent on imported goods, and did not produce sources to finance external liabilities.

The notion of current account sustainability has come to be of considerable interest in the context of recent episodes of macroeconomic turbulence in many emerging markets. Consequently, studying the behaviour of the current accounts in the CEECs and assessing their sustainability is of high importance due to its implications for the economic growth and overall external sustainability of an economy. The purpose of this paper is to analyze factors contributing to the current account deficits, find the relationship between current account deficit and foreign debt accumulation, which could have important policy implications for the CEECs that in the conditions of international debt crises need to decrease their dependence on external financing to enhance the resilience of the national economies to external shocks.

The methodological approach is different from the existing empirical literature in that this study focuses on the particular determinant of the current account balances – external debt, and how the different components of the debt (government, banking sector or corporate sector's debt) influence the current account dynamics in the CEECs. The results of the research show that high external debt accumulation could be a major cause of current accounts instability in CEECs.

The organization of this paper is as follows. First, an analysis of the external imbalances in CEECs is performed. The analysis highlights the most salient features of the capital flows structure in terms of relative importance of FDI, portfolio and debt categories in the overall level of external liabilities of the CEECs. Analysis of the sources of the current account deficits, as well as sectoral breakdown of the external indebtedness of the CEECs is performed. In what follows the empirical methodology is discussed, methods used in this study are justified, data and its sources are described and findings of the econometric analysis are presented. The paper concludes with a summary of main results and economic policy recommendations.

1. Evolution of the external imbalances of the CEECs

The problem of external imbalances is one of the central points when assessing the economic development of the Central and Eastern European countries that joined the European Union and committed to join European monetary union. The main aim of this section is to view the external position of the CEE countries since their EU accession and during and after the Global financial crisis. The section highlights the most salient features of the capital flows structure in terms of relative importance of FDI, portfolio and debt categories in the overall level of external liabilities of the CEECs. Analysis of the sources of the current account deficits, as well as sectoral breakdown of the external indebtedness of the CEECs is performed. The CEE countries included throughout this study are the Czech Republic, Hungary, Poland, Slovak Republic, Bulgaria and Romania.

The international capital flows contribute significantly CEE countries and help to finance their current account deficits. Due to the general lack of domestic savings in these countries, capital inflows are necessary to finance domestic investments and thus economic growth. The financial account of the balance of payments (Figure 1.1) measures the net effects of financial investment flows: Figure 1.1 shows that all countries experienced net capital inflows and therefore a surplus of the financial account balance, which had an increasing pattern after the EU accession, and rather unsustainable surge in net inflows just before the global financial crisis. The cumulative financial account balance in the years from 2004 until 2009 shows remarkably high values for Bulgaria, Romania and Hungary (see Table 1.1), compared with Poland, Slovak Republic and Czech Republic, ranging from 18% to 120% of GDP.

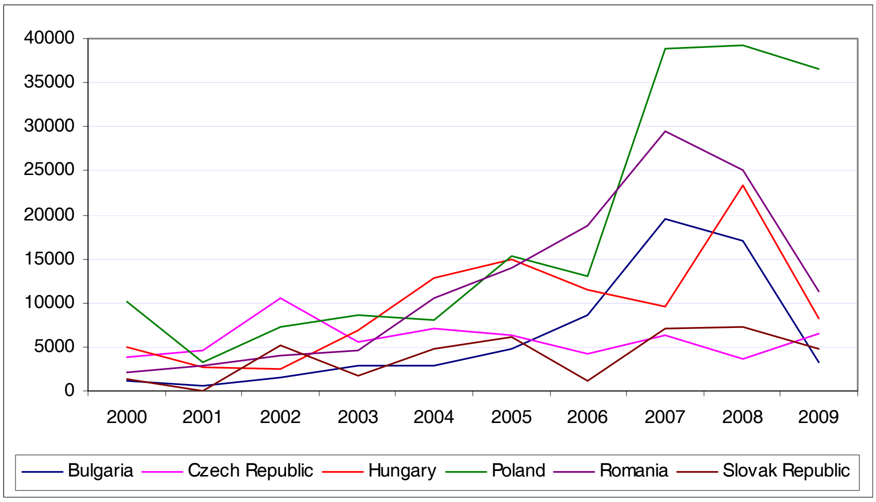

Figure 1.1: Financial Account (In millions of U.S. dollars)
Source IMF International Financial Statistics

Looking at Figure 1.1 it can be seen that the highest surge of net inflows was experienced by Poland, where in 2007 it amounted to US$38.8 billion, which is a 197% increase compared to previous year's net inflows. Other countries, except for the Czech and Slovak Republics, experienced similar problems: in 2007 there was a huge net capital inflow to Romania, Bulgaria, and in 2008 to Hungary. Then, for these countries net capital inflows likewise plummeted in the aftermath of the global recession. It should be also noted that in Poland there was no capital flight compared to other CEECs. It will be discussed later what stands behind this observation. All in all, such a huge volatility of capital inflows can not be sustainable for an economy and requires identification of the sources leading to such high fluctuations.

Looking at the structure of the financial account provides further insights in the composition of foreign capital flows. Table 1.1 shows that all the countries experienced net capital inflows of FDI, portfolio and other investments (exception is Bulgaria, where there was a net outflow of portfolio investments, though not substantial). If in the period before EU accession FDI significantly dominated other and portfolio investments which was indicated in the research of Arvai (2005), in the period from 2004 until 2009 structural shift took place in the financial accounts towards other investments, which are now prevailing over FDI in some countries: in Hungary other investments amount to 72% of total inflows, in Romania – 51%, Slovak Republic – 47%. On the other hand, in Czech Republic major capital inflows are in the form of FDI – 90%, Bulgaria – 73% of the capital inflows are from FDI, Poland – 43%.

Table 1.1
Breakdown of Cumulative Net Capital Inflows 2004-2009

Country	FDI	Portfolio investment	Other Investment	Total amount (in millions of U.S. dollars)	Sum in % of GDP
Bulgaria	73%	-7%	34%	56406.0	120%
Czech Republic	90%	2%	8%	35833.0	18%
Hungary	19%	10%	72%	78781.8	61%
Poland	43%	17%	40%	156039.6	36%
Romania	48%	1%	51%	109960.2	69%
Slovak Republic	47%	6%	47%	31089.9	35%

Source: IMF, International Financial Statistics, UNCTAD, own calculations.
Note: Financial derivatives are not reported as their weight is negligible

The external debt of CEE countries reached levels that give rise to serious concerns about the risks for their financial stability. The external debt ratio (relative to GDP) can be used as a measure of the vulnerability of the economies to changes of the external value of their currencies. As a result of capital inflows, a large stock of foreign debt was accumulated: as it can be seen from Figure 1.2, Bulgaria and Hungary have external debt levels higher than 100% of GDP. For Bulgaria up to 97 percent of debt was denominated in foreign currency in 2010 Q3 according to the World Bank quarterly external debt statistics.

For Hungary foreign currency debt amounts to 82% of the total external debt, Romania – 89%. In such situation a depreciation of the national currency can have a dramatic impact on the debt service these countries have to bear, what in particular happened in Hungary, where as a consequence of the Forint huge depreciation in 2008, the external debt level surged to over 150% of GDP in year 2009.

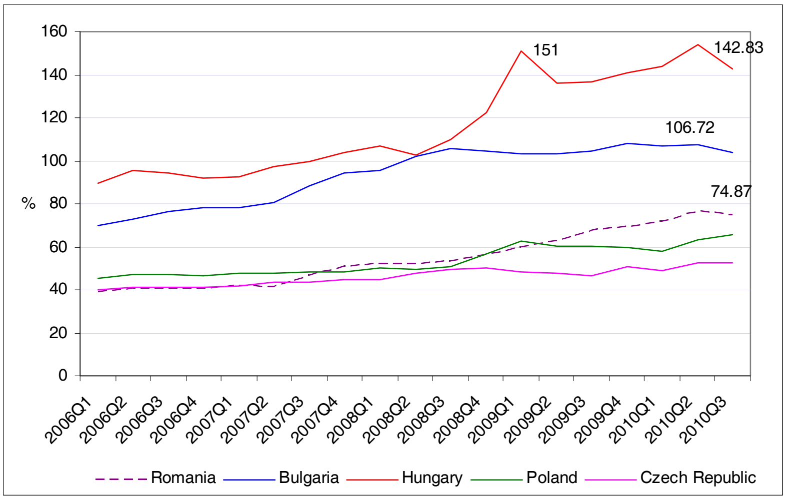

Figure 1.2: Gross External Debt as a percentage of GDP
Source: ECB Statistical Data Warehouse

The depreciation of the national currencies laid a heavy burden on domestic borrowers, who took the loans in foreign currencies. While in Poland, Slovak Republic and Czech Republic the share of mortgages taken in foreign currencies was not significantly large – 26, 20 and 10% respectively, in Hungary and Romania 59% of mortgages were denominated in foreign currencies – Swiss francs and euro. The devaluation resulted in a surge of non-performing loans in the credit portfolios of the banks.

It is important to analyze dynamics and structure of the external debt of the CEE countries in more details which will provide the basis of empirical analysis following in the next section. The World Bank Special Data Dissemination Standard (SDDS) prescribes the dissemination of external debt data with breakdowns by the following sectors: general government and monetary authorities, banks, other sectors and inter-company lending between entities in a direct investment relationship. It should be noted that in the following empirical analysis in the next section other sectors debt and inter-company lending between entities in a direct investment relationship are combined into “other external debt”, and general government and monetary authorities’ debt are combined into “government debt”. Such modification is justified since it will help clearly define the direction of government economic policies aimed at increasing economic resilience to external shocks

Poland’s gross external debt has been steadily growing from the time of EU entrance: if in the beginning of 2004 it was US$107.2 billion, in the end of 2010 it amounted to US$312.2 billion. The general government debt accounted for 36% of the gross external debt, having increased by almost 40% from the middle of 2010. The banking sector’s external debt was US$64.7 billion, which constituted 20% of the gross external debt (see Figure 1.3 for sectoral representation of the external debt). The external debt of other sectors substantially decreased by almost 20% by the end of 2010 from US$72 billion in 2009 to US$57.7 billion and constituted 18% of the gross external debt. The intercompany lending between direct investment companies amounted to US$68.7 billion. Both other sectors and intercompany lending between direct investment companies constituted 40% of the gross external debt.

Thus, these numbers show that the dependence on the external financing has been decreasing for Polish corporate sector, which is undoubtedly a positive factor since the cost of servicing such debt and, consequently, the burden on the current account is the highest. The substantial share of intercompany lending between direct investment companies is not a factor decreasing sustainability, since parent companies are interested more in the growth of the efficiency of their subsidiaries in Poland, and not in the receiving high profits from loans, which makes such borrowing rather safe for Polish corporate sector.

In Hungary gross external debt amounted to US$230 billion in the third quarter of 2010. Government external debt was US$62.9 billion. From EU accession the government debt increased from US$23.2 billion by 270%. Because of the continuous issuance of government bonds, the prevailing part in the structure of government foreign debt is long-term securities. This indicates to the confidence of investors in Hungary's government bonds. However, the growing volume of indebtedness is one of the signs of unbalanced budgetary policy. 98% of the government and monetary authorities' external debt is long-term. The general government debt accounted for about 27% of the gross external debt.

The indebtedness of the banking sector of Hungary has been growing steadily by approximately 135% each year during EU membership until 2009: from US$13 billion in 2004 to US$60 billion by the end of 2008. But starting from 2008 the external indebtedness of the banks was decreasing, and by the second quarter of 2010 reached US$48.6 billion which constituted 23% of the gross external debt. It means that from the onset the financial crisis Hungarian banks had to repay the 19% of the debt. In the maturity structure of the external indebtedness of the banking sector prevails long-term debt - US$33.6 billion (64%).

The indebtedness of other sectors was US$27.7 billion in the third quarter of 2010. After the EU accession it did not grow so rapidly as banking or government sectors debt did. In the beginning of 2004 the external debt of other sectors was US$8.8 billion. However, a strong growth is observed in intercompany lending between direct investment companies: in the third quarter of 2010 it amounted to US$81.1 billion. Before the EU accession it was just US$11 billion. Both other sectors and intercompany lending between direct investment companies constituted 47% of the gross external debt.

By the end of 2010 the gross external debt of the Czech Republic amounted to US$95.3 billion, having increased from the middle of 2010 by US$13 billion mainly due to the growth of the government external debt. Major part of the external debt of the Czech Republic is other sectors' debt which together with intercompany lending between direct investment companies constituted 50% of the gross external debt. Government debt accounted for 27%, banking sector debt – 23% of the gross external debt. Starting from the middle of 2008 the external indebtedness of the banks decreased by almost US$10 billion, which is a similar pattern to that seen in Hungary. However, it should be noted that the gross external debt position of the Czech Republic is not a cause for concern since the ratio of it to GDP is the lowest among considered countries –around 50%.

By the end of 2010 the gross external debt of the Slovak Republic was US$66.4 billion. The government and monetary authorities' debt amounted to US$33.5 billion or 50 % of the total external debt. Banking debt accounted just for 13% of the total debt. It has substantially decreased from the beginning of the global financial crisis: if in the end of 2008 it was US$18.6 billion, by the end of 2010 it decreased to US$8.3 billion. Other sectors debt together with intercompany lending between direct investment companies constituted 37% of the gross external debt.

The external debt of Bulgaria was US$49.9 billion in the end of 2010. Government debt played a minor part in the structure of the total debt – just 10%. Major contribution was done by the other sectors' debt and intercompany lending between direct investment companies – US$36 billion or 72%. The dynamics of these sectors' debt have not been affected significantly by the global downturn. Banking sector debt constituted US$9.2 billion or 18% of the total debt having decreased by more than 25% from the onset of the global financial crisis.

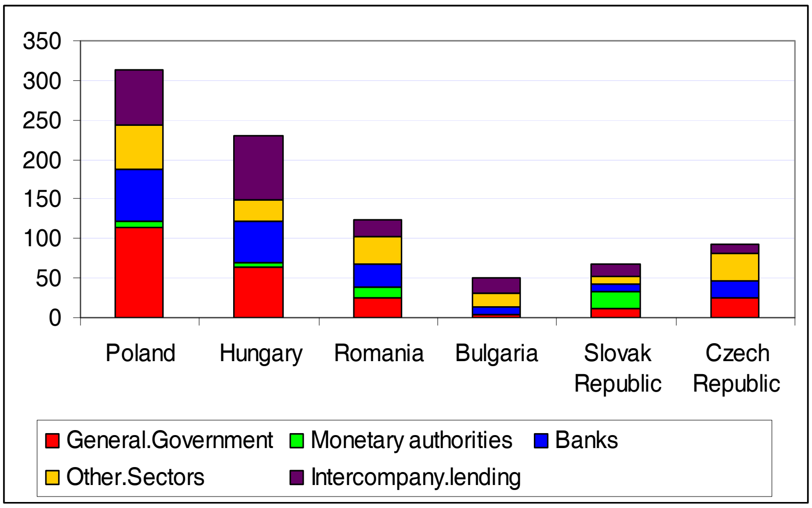

Figure 1.3: CEE Gross External Debt by Sectors as of Q3 2010
(In billions of U.S. dollars)
Source: World Bank Quarterly External Debt Statistics

The external debt of Romania amounted to US$122.8 billion by the end of 2010. The general government and monetary authorities' debt accounted for 31% of the gross external debt, having increased from the onset of the global downturn by 141%. Banking sector's debt was US$30 billion or 24% of the total debt, it has decreased from the second half of 2008 by 18%. Other sectors debt together with intercompany lending between direct investment companies constituted 44% of the gross external debt and amounted to US$54 billion.

The analysis of the structure of the external debt of the CEECs shows that the share of the indebtedness of the banking sector in the overall debt has decreased substantially in recent years. This indicates that in the situation of high uncertainty about exchange rate risk operations with carry trade became less attractive for the banking sector, consumer lending also decreased owing to the weakness of domestic demand. For Hungary, Czech Republic and Poland the indebtedness of the government has substantially increased, which put their governments in dependence on external funding. Nevertheless, in all considered countries the highest share of external borrowing was attributed to other sectors and intercompany lending debt. Intercompany lending should cause less concern for sustainability of a current account (through net factor income payments) since parent companies are more interested in the growth of the efficiency of their subsidiaries than in the receiving high profits from loans. However, substantial debt of other sectors leads to the rising current account deficits, since this type of debt is more risky compared to the loans for banks and government, and creditors require higher premiums for the risk, which directly influences the deterioration of the income debit of the current account.

To support this argument measures of yields on external liabilities for banks and other sectors are constructed using IMF balance of payments statistics data on investment income, together with data on international investment positions of the CEECs. Investment income payments in US dollars related to asset-type X in year t are defined as ID_t^x (where ID stands for income debits). US dollar yield on liabilities is $yd_t^x = \frac{ID_t^x}{XL_{t-1}}$, where XL are the country's stocks of external X-type liabilities
(X can be either bank or other sectors' debt).

Table 1.2
Comparison of the yields on external liabilities of banks and other sectors of the CEECs

years	**Bulgaria**		**Czech Republic**		**Hungary**		**Poland**		**Romania**	
	Banks	***Other Sectors***	***Banks***	***Other Sectors***	***Banks***	***Other Sectors***	***Banks***	***Other Sectors***	***Banks***	***Other Sectors***
2010	0.011	0.023	-	-	0.018	0.021	0.016	0.023	0.024	0.025
2009	0.016	0.029	0.019	0.047	0.026	0.029	0.017	0.036	0.032	0.030
2008	0.030	0.050	0.045	0.071	0.060	0.032	0.039	0.052	0.050	0.049
2007	0.029	0.048	0.046	0.076	0.045	0.026	0.028	0.045	0.059	0.045

Note: “-“ stands for data not available

The results of the analysis of the yields on external liabilities from Table 1.3 indicate that in the beginning of the world financial crisis (years 2007-2008), during which the liquidity on the world financial markets substantially decreased, the cost of external borrowing for all considered countries was significantly higher than in 2009-2010. The possible explanation for this is that the European Central Bank (ECB) and Federel Reserve System (Fed) conducted liberalization policy, which was aimed to provide refinancing to the EU and the U.S. financial sector. As a result, the highest reduction of interest rates in the history took place, which led to two- or even three-fold reduction in the costs of servicing external debt of CEE countries in 2009-2010 compared to the years 2007-2008.

On the one hand, such a policy of the Fed and the ECB facilitated the servicing of internal and external loans in the U.S. and EU countries, including CEE. On the other hand, it led to an inadequate price increase of almost all financial assets and derivative securities, which in turn led to higher prices of all commodities, including raw materials and foodstuffs. In such a situation, given that price stability remains a strategic priority for the ECB and the Fed, it is likely that in the near future the ECB and the Fed interest rates will grow (to reduce inflation), which in turn will lead to an increase in the cost of servicing of the external liabilities of the CEE countries. Therefore, the question of optimizing the cost of servicing the external liabilities of CEE countries is a priority in economic policies of the countries.

The findings suggest that external debt servicing by the banking sector in most cases is less expensive compared with other sectors. It can be seen from table 1.3 that in Bulgaria, Czech Republic and Poland the yields on external liabilities of other sectors are higher than those of banks for all the years 2007-2010. For example, in Poland in 2010 the yield of other sectors was 0.023 dollars for 1 dollar of the liabilities, while the yield on banks liabilities was 0.016 dollars for 1 dollar of the liabilities. In Hungary and Bulgaria the yields of other sectors are also higher than those of banks, but the difference is less significant than in Bulgaria, Czech Republic and Poland and this pattern only started from recent years. For Slovak Republic data were not available.

These numbers indicate that the countries experience larger outflow of interest earnings and payments on the liabilities of corporate sector’s external debt than on banking sector’s debt, which directly leads to the deterioration of the current accounts in the CEECs. This result is explained by the fact that foreign lending to companies is associated with a greater risk than external loans of the banking sector. In every country there exists a strict control from the Central Bank (regulations on capital adequacy, reserve requirements on foreign currency loans, etc.) the purpose of which is to prevent the bankruptcy of domestic banks. For companies such official standards do not exist (there are only requirements for transparency, accountability), which makes loans to foreign non-banking sector more risky and therefore more profitable. However, as calculations show, in Table 1.3, during certain time periods (2007-2008 for Hungary, 2007-

2009 for Bulgaria) the cost of servicing the external debt of the banking sector was higher than in other sectors. This was associated with a significant inflow of foreign loans from parent foreign banks and companies (through "intercompany debt" channel), whose rates were much lower than for domestic banks and companies (that are not affiliated with foreign investors).

Thus, it should be noted that in the upcoming growth of the interest rates of the ECB and the Fed there will be a surge in amounts paid to foreign creditors. Therefore, the CEE countries should, on the one hand, try to reduce the total amount of external borrowing, on the other – try to reduce the cost of debt service, which is possible by partially substituting the external debt of other sectors by banking sector's debt.

The findings of the analysis suggest that the large current account deficits in CEE countries were the result of substantial capital inflows (see Figure 1.4). Compared to Visegrad Group, Bulgaria and Romania experienced huge current account (CA) deficits amounting to more than 10% of GDP in 2006 – 2008. Before the crisis the CA balance was negative, reflecting not only the trade deficits, but also a negative balance on investment income as the NIIP gets more and more negative. In Hungary the main component contributing to the negative CA was negative investment income of US$10.9 billion (98% of CA) in 2008. In Bulgaria and Romania the main component of negative CA were trade deficits, amounting to -US$12.6 billion and to - US$28.2 billion respectively. In Poland both large trade deficit and negative investment income constituted CA deficit. In Czech and Slovak Republics the CA deficits are much more sustainable, compared to other CEE, with income balance contributing to negative CA. Starting from 2008 all the countries except Czech Republic experienced the so-called current account reversals. Especially strong CA adjustment took place in Hungary and Bulgaria: Hungarian CA for the first time became positive, in Bulgaria CA reduced from -23% of GDP in 2008 to -10 % of GDP in 2009.

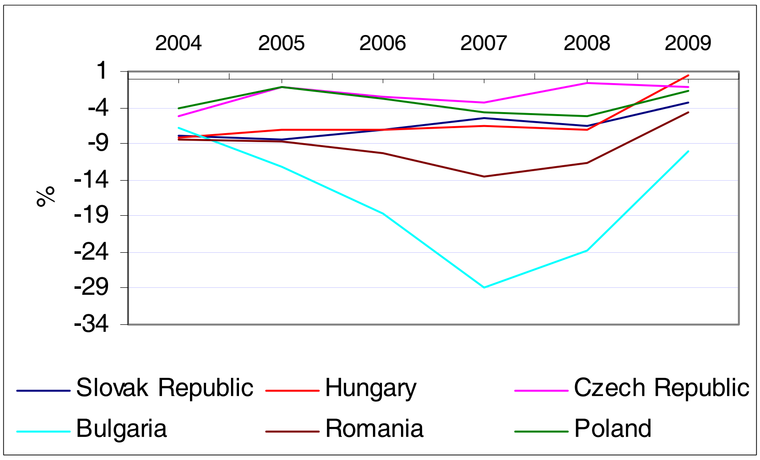

Figure 1.4: Current account as a percentage of GDP
Source: IMF, Balance of Payments and International Investment Position Statistics

The analysis of the sources and composition of capital inflows and external indebtedness that affect the current account sustainability shows that countries in the region have become dependent on western financial capital, which in the Global financial crisis led to their vulnerability. Along with the growth of banking and corporate external borrowing of the countries, the current account deficit of balance of payments rapidly increased to the unsustainable levels, which after facing a "sudden stop" led to the CA reversals and devaluations of national currencies. It is clear that the CEE countries will have to run future surpluses on their balance of goods, services and transfers to stabilize their net external position. CEE countries are not a homogenous bloc. Hungary, Bulgaria and Romania, in particular, have followed similar boom-bust trajectory: external imbalances in these countries rivaled, and in some cases exceeded the maximum allowable threshold of imbalances. Current account deficits in Romania, Bulgaria were well over 10% of GDP in 2008. Bulgaria operates a fixed exchange rate system and a key concern is whether crisis would shake confidence in

Bulgaria's currency board and strong intention to join euro area. Romania and Hungary may have flexible exchange rates, however, they have needed IMF-led rescue packages. Given the large trade deficits Bulgaria and Romania are currently running, the needed shift in trade balance to stabilize their net external position is substantial. Other countries in the region – Czech Republic, Poland, Slovakia – also built up imbalances in recent years. Nevertheless, their imbalances never reached the same proportion as those of Hungary, Bulgaria and Romania. Overall, their economies are in stronger positions to weather any contagion. Slovakia successfully entered the Eurozone in 2009, while Poland qualified for a US$ 20.5 billion flexible credit line (FCL) from the IMF, which is a precautionary facility, available only to countries with very strong fundamentals, which can be drawn upon at any time and without meeting any specific conditions. Such a facility should help provide Poland with a defence against contagion.

2. Empirical Results

In this section the empirical analysis is conducted in order to reveal potential effect of external debt accumulation on current accounts of the CEE countries. Vector autoregression (VAR) framework is chosen for the empirical analysis since it provides a systematic way to capture rich dynamics in multiple time series as argued by Stock and Watson (2001). Specifically, to provide evidence on the dynamic interactions between the current account and the external debt of the CEE countries, the following VAR systems are estimated to test the Granger non-causality:

$$CA_t = \alpha_1 + \sum_{i=1}^{p} \beta_{1i} TD_{t-i} + \sum_{i=1}^{p} \gamma_{1i} CA_{t-i} + \varepsilon_{1t}$$

$$TD_t = \alpha_2 + \sum_{i=1}^{p} \beta_{2i} TD_{t-i} + \sum_{i=1}^{p} \gamma_{2i} CA_{t-i} + \varepsilon_{2t}, \tag{1}$$

where CA and TD and ε denote the current account, total debt and error term respectively; α is a constant term; β and γ denote the coefficients to be estimated, p is the lag order selected. The null hypothesis of Granger non-causality from TD to CA and from CA to TD are $\beta_{1i}=0$ and $\gamma_{2i}=0$, respectively. The rejection of the null hypothesis of the Granger non-causality from TD to CA implies that the past external debt can help predict the current CA, and vice versa. Similar methodological approach was used in the study of Ho-don Yan (2007) who found that foreign capital inflows Granger-cause the current account in the cases of emerging market countries, while a causal relation was negligently detected in the cases of developed countries.

To test the causal relationship between the current account and the three components of external debt (government external debt, banking sector external debt and other sectors external debt), the estimation method is similar to Eq. (1). The VAR system may be expressed as follows:

$$CA_t = \alpha_1 + \sum_{i=1}^{p} \beta_{1i}^{GD} GD_{t-i} + \sum_{i=1}^{p} \beta_{1i}^{BD} BD_{t-i} + \sum_{i=1}^{p} \beta_{1i}^{OD} OD_{t-i} + \sum_{i=1}^{p} \gamma_{1i} CA_{t-i} + \varepsilon_{1t}$$

$$GD_t = \alpha_2 + \sum_{i=1}^{p} \beta_{2i}^{GD} GD_{t-i} + \sum_{i=1}^{p} \beta_{2i}^{BD} BD_{t-i} + \sum_{i=1}^{p} \beta_{2i}^{OD} OD_{t-i} + \sum_{i=1}^{p} \gamma_{2i} CA_{t-i} + \varepsilon_{2t}$$

$$BD_t = \alpha_3 + \sum_{i=1}^{p} \beta_{3i}^{GD} GD_{t-i} + \sum_{i=1}^{p} \beta_{3i}^{BD} BD_{t-i} + \sum_{i=1}^{p} \beta_{3i}^{OD} OD_{t-i} + \sum_{i=1}^{p} \gamma_{3i} CA_{t-i} + \varepsilon_{3t}$$

$$OD_t = \alpha_4 + \sum_{i=1}^{p} \beta_{4i}^{GD} GD_{t-i} + \sum_{i=1}^{p} \beta_{4i}^{BD} BD_{t-i} + \sum_{i=1}^{p} \beta_{4i}^{OD} OD_{t-i} + \sum_{i=1}^{p} \gamma_{4i} CA_{t-i} + \varepsilon_{4t} \tag{2}$$

Quarterly data from 2002 to 2010 are used, taken from the International Financial Statistics and Balance of Payments statistics of the International Monetary Fund and World Bank Quarterly External Debt Statistics. For Bulgaria the data on external indebtedness are available from 2005Q3 2010Q4. For Romania the data on external indebtedness are only available starting from 2008 Q2, thus not allowing to include it into the analysis due to the lack of observations.

The model is estimated as follows. First, an unrestricted VAR is estimated. Granger causality testing is performed. Second, from the VAR, the variance decomposition is undertaken for the current account for each type of debt. Thus, particular attention is paid to three different components of external debt and their effects directly on CA. Variance decomposition separates the variation in an endogenous variable into the component shocks to the VAR. Hence, it provides information about the relative importance of each random innovation in affecting the variables in the VAR.

The optimal number of lag length was chosen by looking at AIC and SIC criteria. The stability of VAR was checked: all AR roots are inside the unit circle and Autocorrelation LM test states that no serial correlation in the residuals was detected.

Before estimating the model it is important to consider the stochastic properties of the series used in the analysis. The order of integration of the variables was identified by performing the unit-root tests. Specifically, Augmented Dickey-Fuller (ADF) test was used. The results of the test are reported in Table 2.1. The results of the test indicate that first-differences of the series are stationary. CA of Slovak Republic is found to be stationary according to ADF test at 1% significance level. All the other variables have unit roots I(1).

Table 2.1:
ADF unit root tests

Country	CA	GD	BD	OD	TD
Bulgaria (2005Q1 2010Q4)	-1.12	-2.01	-1.49	-2.07	-1.66
Czech Republic (2002Q1 2010Q3)	-1.57	0.67	-1.16	-0.75	-0.45
Hungary (2002Q1 2010Q3)	-1.63	-0.74	-0.75	-1.29	-0.92
Poland (2002Q1 2010Q3)	-2.27	-1.1	-0.49	-1.2	Січ-86
Slovak Republic (2002Q1 2010Q3)	-4.52*	-1.56	-2.11	-0.77	-1.87

** CA of Slovak Republic is found to be stationary according to ADF test at 1% significance level. All the other variables have unit roots.*

Since unit root tests indicate that the series are integrated, a question arises whether there exists a cointegrating relationship between current account and external debt, which is if there is a long-run equilibrium relationship between these variables. For that the Johansen cointegration test is used to determine the number of cointegration vectors.

Table 2.2 reports the results of the Johansen cointegration test. Both the maximum eigenvalue test and trace test strongly reject the null hypothesis of no cointegration. There is strong evidence for one or two cointegrating vectors.

Table 2.2:
Johansen cointegration tests

Hypothesis	Bulgaria		Czech Republic		Hungary		Poland		Slovak Republic	
	Lmax	Trace	Lmax	Trace	Lmax	Trace	Lmax	Trace	Lmax	Trace
r =0	65.29	122.3	81.81	113.3	47.94	80.95	51.67	90.69	30.57	61.57
r =1	32.17	57.08	19.16	31.57	20.45	33	24.72	39.01	19.22	31
r =2	22.63	24.91	11.86	12.41	9.44	12.55	14.16	14.29	11.06	11.77
r =3	2.27	2.27	0.54	0.54	3.10	3.10	0.13	0.13	0.70	0.70

** Lmax is the maximum eigenvalue test of the null hypothesis of r cointegrating vectors against the alternative of r+1 relations. Trace is the trace test of the null hypothesis of r cointegrating vectors against the alternative of 0 relations. At the 5-percent significance level, the critical values are, starting from the null of r=0: 27.58 (47.85), 21.13 (29.79), 14.26 (15.49), 3.84 (3.84). The critical values for the Trace test are shown inside the parenthesis*

The results of the Granger causality test are reported using current account and total external debt first, and then current account with three different components of the external debt: banks debt, other sectors debt and government debt. Behind the country name the sample range is listed in parentheses. The numbers in the parentheses beside the Wald statistics are the P-values.

Table 2.2 investigates the causal relationship between the current account (CA) and the total external debt (TD). Table 2.2 shows that for the CEE countries either TD causes CA, or CA Granger-causes TD, or both. Among them, Bulgaria exhibits a significant bi-directional causality between CA and TD. For Czech Republic it is current account that causes total external debt at 5% significance level. In case of Hungary TD causes CA, as well as CA causes TD at 1% significance level. In Slovak Republic TD significantly causes CA at 1% level, while CA causes TD at 5% significance level.

Table 2.3
Granger causality test on CA and TD

Country	**Dependent variable**	**Lagged variables**	
		CA	TD
Bulgaria (2005Q3 2010Q3)	CA		33.48 (0.00)[a]
	TD	21.49 (0.00)[a]	
Czech Republic (2002Q1 2010Q3)	CA	9.81 (0.04)[b]	6.22 (0.18)
	TD		
Hungary (2002Q1 2010Q3)	CA	12.71 (0.00)[a]	15.55 (0.00)[a]
	TD		
Poland (2002Q1 2010Q3)	CA	11.84 (0.03)[b]	12.00 (0.03)[b]
	TD		
Slovak Republic (2002Q1 2010Q3)	CA	12.48 (0.02)[b]	14.5 (0.01)[a]
	TD		

Note: CA and TD denote the current account and total debt respectively. Behind the country name the sample range is listed in parentheses. The numbers in the parentheses beside the Wald statistics are the P-values: a,b,c represent the 1%, 5%, and 10% significance levels, respectively.

In the next step the total external debt is decomposed into three different components: government sector debt, banking sector debt and other sectors debt. Since the variable of interest is CA, the results of Granger causality among other variables are not reported for the sake of analysis. The results are presented in the Table 2.3. It can be seen that among CEE different components of the debt Granger-cause CA. For Bulgaria the results are consistent with the results found in Table 2.2 where total debt is not divided. CA is caused by government debt and by banking and corporate sector debt. In case of Czech Republic none of the components of external debt causes CA, which is consistent with the finding in table 2.2. In case of Hungary banking sector debt causes CA at 1% significance level, while corporate sector causes CA at 10%. For Poland results are consistent with those shown in Table 2.2: corporate sector debt causes CA. In Slovak Republic banking sector debt causes CA at 1%. Thus, separating the total debt into three different components reveals which type of external debt has a causal relationship with CA.

The variance decomposition of the model points out that external debt accumulation makes a large contribution to CA of Hungary, Poland, Slovak Republic, Bulgaria, but this is not the case for the Czech Republic. Starting from the third quarter about 40% of the variation in the Hungarian CA is explained by innovations in the external debt of the banking sector. In Poland the external debt of other sectors is the main source of variation in the CA starting from the fifth quarter.

Table 2.4
Granger causality test for CA, GD, BD, OD

Country	Dependent variable	Lagged variables		
		GD	***BD***	***OD***
Bulgaria (2005Q1 2010Q4)	CA	9.32 (0.02)[b]	14.6 (0.01)[a]	32.5 (0.00)[a]
Czech Republic (2002Q1 2010Q3)	CA	3.18 (0.81)	2.26 (0.67)	2.97 (0.70)
Hungary (2002Q1 2010Q3)	CA	1.73 (0.62)	16.91 (0.00)[a]	6.66 (0.08)[c]
Poland (2002Q1 2010Q3)	CA	1.67 (0.43)	1.29 (0.52)	8.33 (0.01)[a]
Slovak Republic (2002Q1 2010Q3)	CA	1.45 (0.48)	5.74 (0.05)[b]	1.10 (0.57)

Note: CA and GD, BD, OD denote the current account, government sector debt, banking sector debt and other sectors debt respectively. Behind the country name the sample range is listed in parentheses. The numbers in the parentheses beside the Wald statistics are the P-values: a,b,c represent the 1%, 5%, and 10% significance levels, respectively. Since the variable of interest is CA, the results of Granger causality among other variables are not reported.

The contribution of the banking sector is rising steeply until the fifth quarter, but then stabilizes at 20%. Bulgaria has similar pattern: external debt of other sectors is the main source of variation in the CA starting from the fourth quarter. In Slovak Republic starting from the second quarter about 20% of the variation in the CA is explained by innovations in the external debt of the banking sector. In Czech Republic none of the components of the external debt makes significant contribution to the CA, CA plays the largest role in its own errors. Thus, it can be inferred that for the Czech Republic the external debt is not significantly contributing to the current account dynamics and should not cause concern. This result is in line with the previous section finding that the CA of the Czech Republic is more sustainable than those of other CEECs.

When assessing the overall quantitative performance of the presented results it must be noted that one possible weakness stemming from the quality of the data is present – the limited length of the time series due to the availability of the data on external indebtedness of the CEECs only from 2002. Nevertheless, the obtained results allow making a number of relevant policy recommendations which are discussed in the conclusions.

Conclusion

It is clear that during the convergence process external imbalances in the CEECs are likely to continue. This is to some extent a natural outcome of catching up, but current account deficits must be carefully monitored, since they might be especially dangerous for the countries which do not posses substantial reserve assets and whose currencies are not actively used in the international settlements. In case of instability of the national financial systems or international capital markets turbulence, the presence of the current account deficit leads to a rapid depreciation of the national currencies, devaluation of the national assets, sharp increase of the debt-servicing burden and, consequently, to rising costs of production, losing national competitiveness and falling living standards.

In designing an appropriate policy to deal with external imbalances, it is important to identify the source of these imbalances. In particular, in the thesis it was identified that the widening of the current account deficits in the CEECs was a result of a number of long-term growth and structural factors, external shocks and domestic policies: the growth of trade deficits, rising external indebtedness and profit repatriation and the consequence of the real appreciation of domestic currency. All the CEECs countries have been facing net capital inflows and therefore a surplus of the financial account balance, which had an increasing pattern after the EU accession, and rather unsustainable surge in net inflows just before the global financial crisis. Such a huge volatility of capital inflows can not be sustainable for an economy especially taking into consideration the sources leading to such high fluctuations. While in the period before the EU accession FDI significantly dominated portfolio and other investments, in the period from 2004 until 2009 there was a structural shift in the financial accounts towards other investments, which are now prevailing over FDI in some countries. Such a shift of the capital inflows structure poses more difficulties to monetary authorities in terms of economic policy, because the external borrowing in the form of financial credits of the banks boosted consumption in CEECs, which was mainly spent on imported goods, and did not produce sources to finance external liabilities.

The CEECs have become dependent on western financial capital, which in the Global financial crisis led to their vulnerability. Along with the growth of banking and corporate external borrowing of the countries, the current account deficit of balance of payments rapidly increased to the unsustainable levels, which after facing a "sudden stop" led to the current account reversals and devaluations of national currencies. The external indebtedness of the countries is likely to remain large. The problem for the economies would be exacerbated if the interest rates go up in developed countries. Countries with large amounts of foreign debt, like Hungary, Bulgaria and Romania will face an increase in their debt servicing payment that would directly further worsen their current account balances. A large debt-servicing burden can exhaust export revenues and preclude imports of investments goods that are needed for growth. The debt burden can inhibit any growth policies in such case.

This paper has empirically verified that the current account imbalances of CEECs are caused by the external indebtedness. The empirical results showed that during rapid integration of capital markets of the new EU members rising external indebtedness have often led to current account deficits in all considered CEECs, but the Czech Republic. These results suggest that external borrowing in the form of other sectors and intercompany lending debt play important role in current account developments in the CEECs. The inter-company lending between entities in a direct investment relationship causes less concern for sustainability of a current account (through net factor income payments) since parent companies are more interested in the growth of the efficiency of their subsidiaries, than in the receiving high profits from the loans. However, substantial debt of other sectors leads to the rising current account deficits, since this type of debt is more risky compared to the loans for banks, and creditors require higher premiums for the risk, which directly influences the deterioration of the income debit of the current account. This argument is supported by the analysis of the yields on external liabilities of the banking and corporate sectors' debt, which showed that the CEE countries experience larger outflow of interest earnings and payments on their liabilities of corporate sectors than on banking sectors external debt. This, in turn, directly leads to the deterioration of the current accounts in the CEECs.

It is expected that in the conditions of growing prices in the U.S. and EU economies, caused by the extremely liberal monetary policy of the U.S. and the ECB, the regulators will be forced to raise interest rates in the coming year, which will significantly increase the cost of debt servicing for the CEE countries. Expecting the increase of the interest rates on international credit markets and the corresponding negative impact of debt service on the fiscal budget (public debt) and current account balance (all components of external debt), governments of the CEECs need to create conditions for reducing the total amount of external borrowing and to reduce the cost of its service.

In this connection, it is suggested to reshape the structure of the external debt of the CEECs by reducing the indebtedness of other sectors, hence alleviating the burden of it on the current accounts. The governments should create conditions for the growth of domestic banking sector's lending to corporate sectors by increasing the liquidity of the national banking systems. This can be done either via lowering the refinancing rate or if necessary via reducing the reserve requirements for loans received from abroad. In the conditions of national monetary policy liberalization restraining the private consumption is important as its high growth can lead to the inflation and growth of imports. Inflationary pressure created as a consequence of such policy may be minimized by reducing the budget deficits (which will directly reduce the external debt of the government), and increasing the taxes on personal income (income tax) and consumption (VAT), as well as property and luxury taxes. Such a policy will lead to the improvement of the income balance of the current account as well as trade balance (reducing imports and enhancing exports).

Suggested measures primarily relate to the countries such as Hungary and Bulgaria, that have external debt to GDP ratios higher than 100%, and also Romania and Poland, which have accumulated high external imbalances. These measures will help reducing the dependence on the external funding in the conditions of the international debt crisis and will not allow the repetition of the situation in Greece, Ireland, and Portugal. These measures do not relate to the Czech Republic and Slovakia. This is because the Czech Republic has rather sustainable external position as it was shown during the analysis. Slovakia, in turn, has a greater margin of safety, because the ratio of debt to GDP and the amount of payments on the debt service are less than in Hungary, Bulgaria, Romania and Poland, and the membership in the euro area eliminates the risk of the currency devaluation

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FINANCIAL GLOBALIZATION AND CRISIS OF FINANCIAL INNOVATION INSTRUMENTS

Keywords: globalization, financial innovation, financial architecture, post-crises development.

In the conditions of financial globalization main profit of economic agents is formed exactly in a financial system that is why financial globalization determines vector of development of world economy. The most essential feature of modern national markets' development and world economy in general is accelerated growth of capital and production concentration in various spheres of economic activities. Forming different types of integrated business-groups, financial-corporative structures which have substantial production capital and expanding possibilities for accumulating financial resources is an indicator of massive concentration and centralization of capital.

Characteristics of developing global integration processes in world economy is their financial component which is connected with financial innovations of finance-crediting institutions, with their developing transnational strategies of positioning, and with stock market and also with profitable motion of stock instruments.

Financial economy, according to professor of MSU named after M.V. Lomonosov Professor U.M. Osipov's definition, is creation of financial capital which became an engine of modern world economy. Professor U.M. Osipov emphasized specifics of global financial economy as a system of financial relationships in which financial institutions are the leaders and financial operations account for the main proportion of all transactions on the world market. [1, 81].

Basic features of financial economy are the following:

- turning national financial markets into open systems united in a common global financial market;
- enormous volumes of deals on financial market and high level of its liquidity;
- boosting in capital movements and variety of applied financial instruments;

One of the most significant tendencies in developing global world economy is deepening cooperation of reproduction structures of different countries on different levels and in different forms and transnational companies' activities encourages it greatly. International production is connected with development of international division of labor as well as with its new forms. Agents of international manufacturing are transnational corporations (TNC) and transnational banks (TNB) which are "locomotives" of global financial economy and international production. Substantial volume of international production accounts for activities of different kinds of world economy agents in the frames of international production cooperation.

An important feature of global financial economy is, in E.F.Avdushkin's opinion, is dominance "in monetary volume of financial markets over tangible products and resources' markets, speculative part of world finances over their investment component" [2, 29].

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Processes of internationalization, regional integration, globalization and localization in spite of their interdependence and interaction are different in their specific laws in modern conditions. Integration becomes deeper in developed countries – countries of financial core – in which localization processes limiting integration and stimulating global processes in world economy are also developing because governments of national states are interested in attracting foreign investments and capitals of TNC for economy development. Developing internationalization processes is a result of TNC activities.

Global financial services TNB accompany international economic relationships on all levels. World finances connect national economies in a common interdependent system. During export-import operations international accounts are made or international credits are demanded, during international migration of labor force transfers of wages are transported. It is necessary to remember that there is an independent world financial market with its own mechanism and particular development.

During pre-crisis period a level of foreign investments increased and this made financial markets more dependent from each other. Access to information, new technologies stimulated creating of global banks and financial mediators. They allowed investors to transfer money just pressing the button while minimizing deals' costs.

Global financial economy is based on real capital – direct investments - but most obviously it appears in derived financial instruments. Taking into account fast increasing complexity of derived instruments' construction and high speed of copying financial technologies on the market, it is rather actual to ask a question how well state regulators and professional associations understand new financial products and services which can be called financial innovations. These innovations are used by investment banks and investors connected with them.

Before the global crisis growth of financial depth of market was associated with big economic increase and in this case it was considered that financial innovations influenced the market well. For example, securitization instruments allowed investors to diversify their risks and release themselves from need to have expensive bank capital.

The crisis demonstrated failure of these affirmations. Growth of financial assets on developed markets to a large extent reflected not effective distribution of assets but growth of financial bubbles. Securitizing assets was just illusionary because major investors were mediators during securitizing of instruments which they produced themselves.

Global financial centres (GFC) should be considered as complex structured systematic formations which have global and subglobal coverage providing modernization of integrated inside them financial institutions. Balance of financial economy can be reached through crisis. Financial centre as a system of financial control allows controlling through crisis. Modern economy is transcendent because of using financial innovations and in the conditions of financial globalization one can say about the crisis of complex financial instruments.

The meaning of modern financial-economic crisis is that besides identified disproportions in economic life of the country it also showed significant shortcomings of modern economic policy and first of all – of financial sector which particular feature of development was dominance of speculation financial instruments and technologies.

Financial globalization development is determined by using information-financial technologies. This phenomenon is a controversial process of implementing new instruments which have dichotomic character depending on financial-investments sphere development's vector and objective social-economic results of innovation financial instruments use.

Financial innovation on global market is a complex process of making new financial instruments and financial technologies on the basis of innovation technologies and the goal is to earn a profit and to decrease risks' level. Financial innovations can be destructive, "toxic" triggering a reaction of risk strategy of financial capital on a global market and they manifest themselves in their dichotomic character.

Dichotomic kind of influence of financial innovations on the development of financial-investment complex of national economy is connected, from one hand, with formation of new instruments of risk evaluation, redistribution and decreasing and, from the other hand, with predominance of speculative virtual deals in the interests of enriching economic agents on the market instead of redistribution of money capital into priority innovation projects providing modernization growth of national economy.

From this point of view financial innovations in the conditions of unstable monetary policy "close" some negative information about economic agents, "washing away" their risks with the help of new financial instruments that leads to risks' accumulation and triggers crisis situations on local and global markets. Becoming because of the risks outsiders, emitters developing value strategies structure information about their company trying to make information flows positive. In opinion of a number of well-known experts, it is dichotomic character of innovation financial product which in due time accelerated a crisis in a financial sphere of the USA and then had been translated to forming financial markets of the other countries.

As financial product as a type of financial innovation in investment-bank sphere is a material part of established service of a financial institution and is to be sold on a financial market (mortgage bonds, complex risks' insurance policy, credit card, deposit certificate, securities, derivative financial instruments) all banking products in explicit or implicit form involve risks and their amounts greatly differ depending on types of financial products.

Contents of financial innovations in modernization of banking policy in Russia must mean making new financial instruments as forms of redistribution of money resources which involve a certain level of risks, liquidity and profitability corresponding to creditors (investors) and loaners' needs.

Now banking system in Russia cannot offer itself such innovation products which allow eliminating misbalance in monetary and currency-monetary spheres. However, it is necessary to make products which will motivate using their own sources of investments and thus creating a system of internal financing of the country development with the prospect of its innovation growth and making progressive structure of national manufacturing in which science-intensive branches of economy play a leading part.

As the result of global economic crisis demonstrated, dichotomic character of complex financial instruments directed to the growth of liquidity of the operators of financial market, first of all, banks and insurance companies, dramatizes disproportions of reproduction process and limits dynamics of forming national innovation development strategy.

Modern global crisis (more exactly – its current wave because in the prospect one can predict the second and even the third waves of the crisis) is not an occasional but typical event connected with long-term trends (megatrends) of world political and economic development. At the same time modern crisis has its special features connected with far-gone processes of globalization, regional political and economic integration, global migration and so forth. It is important divide in world development and in many ways it has been caused by these particular processes.

Events in the sphere of housing mortgage lending when mortgage banks in the USA were on the verge of bankruptcy because of defaults in payment of their loaners became an accelerator of crisis phenomena. There came doubt if it is worth giving the population not only mortgage loans but also other consumer credits. Commercial banks in the USA and some other countries felt alarm and in fact folded operations in the sphere of consumer loaning. This immediately influenced the branches of automobile industry and house building. As other branches of economy are connected with these two ones decline in production touched them, too. Thus, this world economic crisis started.

Risk financial innovations such as default swaps on mortgage lending agreements and securitization are also considered as a source of the world economic crisis. Default swaps are used as a mechanism of credit risks' hedging. Secured themselves this way (having sold a risk), banks started decreasing responsibility level towards their investors – real creditors of banking operations. The problem of "moral risk" as a kind of post contract opportunism appeared. Securitization of assets is an instrument which allows turning long-term investments into liquidity assets (money). Mechanism of the deal is the following: banks which provide a loan on security of property rights make a pool of liabilities from mortgage bonds. This pool is sold to a certain financial company (mediator) which issues on this diversified secured loan homogenous and highly liquid securities (shares, as a rule) and places them on a stock market. Having sold his/her own shares, financial mediator attracts money on which he/she buys a new pool of mortgages from the bank giving it, in its turn, a regular portion of banking resources for mortgage lending. As a result, a bank gets rid of long-term liabilities (that allows it holding long-term liquidity ratio H4) and gets a constant source of financing credit agreements while a mediator diversifies his/her own risk and increases liquidity of financial instruments. Securitization of assets also means that a stock market turns into a source of credit resources of banking system. Bank involved into the scheme of securitization is a hostage of investors' moods on world stock markets that decreases its stability.

It should notice that securitization of assets also began to spread on leasing agreement, automobile lending and commercial mortgage lending. But in fact, because of advance financial crisis in developed countries this kind of activity in Russia could not greatly spread. Financial innovations similar to credit default swaps and securitization seemed to be interpreted as an instrument of developing financial system, changing of assets and liabilities' structure and quality, adjusting financial resources' offer to its demand. At the same time risks of similar innovation institutions seemed to be greatly underestimated and "fragility" of world financial system (term by H.Minsky) became more obvious.

And, of course, more common problem is a rather big volume of speculative capital in world economy which is ready in search of arbitrage to move from one economy to the other, to overflow from some instruments to the others deepening financial instability both nationally and internationally. World financial market is becoming an object of regard not only for excess savings' owners but for a certain stratum of population which stakes on reckoning and luck and sees it as an exciting gamble. Financial speculators' activities, from one hand, suppress current volatility and stabilize markets in short-term period but, on the other hand, they deform long-term trend ("bear" and "bulls" rallies and so on) giving rise to big financial cycles. Thus, a financial cycle itself has behavioral, that means, institutional nature.

In a post-crisis period it may appear new system risks (market of government debts – European debt crisis in 2010 - which put global finance on the verge of renewal of world financial crisis), overheated in 2009 stock markets of developing countries with growth dynamics more than 80-100% a year (including Russia).

That is why it is quite likely that concentrations of credit, market, percent risks additionally accumulated for the crisis period of 2008-2009s will lead to market shocks in some countries (new industrial countries, developing economies of Asia and Latin America) which then can - in a shape of financial pandemic – spread it on financial systems of analog countries or the countries which are situated in the same regions, or on the countries with similar risk concentrations.

Thus, Russian financial system as one of the assets of world finance closely connected with and correlated to international finance markets is – because of its low competitiveness, sensitivity to speculative operations – one of the most vulnerable for financial infection objects.

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DEVELOPMENT OF INFORMATION ECONOMY IN THE AGE OF GLOBALIZATION

Keywords: globalization, information economy, high-efficient technologies.

“Information economy” is a concept which can be applied to modern economy and this concept characterizes it in the broad sense as “new economy” of global information society in which market space of world-wide scale is being formed thanks to information-communication technologies. Information is a key factor and a product of manufacturing and information shortcomings of market mechanism at the microlevel influence establishing macroeconomic stability. In the narrow sense of the word it is economy of information benefits and information-communication technologies. In other words, it includes producing, distribution, consuming information benefits as well as a sphere of applying information-communication technologies.

As R.Boyer says, “information economy comprises information and technology cooperating with it and also all operations which make it possible to transfer and store binary data in a physical format”. [1, 130]

Information benefits are considered the benefits which can be presented in a digital form. Such broad definition of information benefits is shared by most economists. Actually everything that can be presented in a digital form coded in bit streams is information.”. K. Shapiro and H. Varian stress. [2, 3]

In spite of the fact that knowledge always was and is a motor of social-economic development it is the modern economy which has the right to be called “economy based on knowledge” because this role of knowledge was based on a new platform which information-communication technologies form. Unlike all technologies achievements of the past they have direct relation to knowledge producing, to its fast and efficient expansion and effective use. “The critical point in knowledge economy is not just to make new knowledge but to use it efficiently”3, A. Aristanbekova says. [2, 31]

This can be realized thanks to the following components of “economy based on knowledge” to which the World Bank’s experts pay attention:

- education and learning (educated and professionally- trained population available which is able to produce, to distribute and to use knowledge);
- dynamic innovation structure (resources providing communications, distribution and information processing);
- economic motivations and institutionalmode (general economic environment promoting free circulation of knowledge, implementing information-communication technologies and developing business activity).

Modern period in developing human civilization can be called a period of global information society in which economic activity takes place in international market scale. It has been formed under the influence of information revolution and the process of globalization that has

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been the most clearly manifested just in economic sphere. Information revolution starting in 1950-1970s gave as its result constantly increasing expansion of information-communication technologies the need in which can be explained by transforming knowledge into a key factor of production as well as the demand (in connection with this) to produce, to store, to transfer enormous data masses. Information-communication technologies, in turn, became a necessary condition and accelerator of globalization process dramatically decreasing transportation and connection costs, thus allowing economic agents to enter network structures, giving possibilities for electronic methods of running business, boosting the process of technologies and scientific research internationalization and opening new prospects for fulfilling human resources in a global scale.

Economy of global information society is an information type of economy in which the role of information as a resource is very big. A sector of producing information benefits and communication technologies is one of the most fast growing and information imperfections of market mechanism influence economic stability chances. One of its main features is information nature of a large part of nations' wealth which is manifested both in explicit and implicit forms. The wealth whose information nature appears in explicit form actually consists of information benefits, i.e. benefits which can be presented in a digital form as computer programmes, films, musical pieces, books and so on. In its implicit form information nature of modern society's wealth is manifested in all the products manufacturing of which can be called knowledge-intensive because it demands involving both implicit and explicit pieces of knowledge having information form. It is clear that a considerable part of benefits produced in different branches of economy can be referred to these products.

Information revolution started in developed countries in 1950-1970s of the twentieth century. It was connected with creating and expansion of information-communication technologies. Need in technologies with the help of which it can be possible to produce, process, store and transfer enormous data masses appeared as a result of theoretical knowledge transformation into a key source of innovations. It became one of the signs of a new post-industrial society as a new stage in human history.

Post-industrial period in developing world civilization is connected with appearing numerous problems of global character which can deeply influence all the aspects of world system organization.

It seems rather clear that real process of civilization development in average – and in long term will be dramatically determined by the results of world system transfer to a new post-industrial social-economic form of 21 century – to information society. [4, 5] Intensive process of global information-telecommunication environment formation actually opens new opportunities in different spheres of social-economic activities of a human being and brings to formation of economy system of a new type - "information (network) economy". This economy is based upon more intensive use of intellectual and information potentials of a society as a main renewable resource of its stable development that provides dramatic increase of its efficiency in comparison with material manufacturing of industrial society.

Orientation to use intelligence, knowledge and highly effective technologies as the main resource of civilization development gives necessary premises for its stable development and transfer to practical fulfillment of noosphere paradigm. A society which is able to use individual ideas of people for growing possibilities of a society as whole and which can use growing opportunities of itself to form a person who can again generate new ideas will have the fastest rate of growth of its possibilities.

Extraordinary changes in technologies and technique leading to intensive knowledge growth provide deep transformation of categories in which a human being interprets all the processes at work and produces new ideas. And this, in its turn, brings to transformation of general production and social structures forming as a result of organizational cooperations of capital flows, information and technologies.

Industrial differentiation of labor which characterizes high-tech industry is transferring into global connection between information environments, centres of high-skilled production and control centres. This leads to globalization of information economy and displacement from it uncompetitive segments as a result of transforming material and financial flows' cooperation. Thus, in the conditions of intensive development of telecommunication connections one dominant segments of developed countries' economies will integrate into global economic system and the others will increase their isolation from the processes of accumulation and consumption.

In researchers' opinion, "material and financial flows will as if "bypass" noncompetitive regions and economy segments". [5, 6] At the same time information component of reproduction process will become the base of prosperity of leading countries and their dominating position in the world strengthening information inequality of not so competitive countries.

That is why intensive development of new information and telecommunication technologies and globalization of economy will encourage growth of asymmetry between countries and regions. As on the global market distribution of profits is determined by a level of profitability economic factors themselves will start reproducing and even increasing social-economic inequality of economically developed and developing countries. Deeper inequality, in its turn, will lead to decreasing rates of consumption of education and medical care, living standards' decrease in these regions, mortality rate increase and so on. All this will stimulate globalization of instability in the world.

Thus, a new economy system will be high-dynamic, high-chosen and high-stable, but at the same time will lead to the growth of economic inequality and instability of "weaker" countries in the conditions of economic globalization. And this, in its turn, will become a potential source of various conflicts. This factor should be taken into consideration while developing strategies of stable growth of civilization in the conditions of building information society and its economic system.

In the conditions of revolution communication technologies play a critical role in practically any economic activity which is connected with information and its storing, processing and transferring. Thanks to the Internet as a product of information revolution functioning economy in real-time mode became possible and this boosted, simplified and increased volumes of financial operations, international commerce flows, dramatically decreased the costs of intercompany and incompany communications. Because of the influence of information technologies changes in manufacturing and products occur. They are the following:

- products of many modern industries become more information-intensive and demand for their producing less traditional kinds of raw material, materials and energy that, in its turn, in combination with progressively growing demands to human resources' skills encourages high-tech industries development near the main markets of their products' sales – not near the sources of raw material;
- the goal of production is not to produce standardizing products in mass volumes but to produce individualized goods in small consignments. It can be done on the basis of production flexibility adaptive to operational readjustment and thanks to broad application of automation and electronics;
- global scales of sales market of production make the problem of competitiveness of innovations and goods' quality quite actual. This, in its turn, makes modern production innovative.

In the period of information economy dynamic combination of automation processes and integration of economic activity has formed thanks to networks which expanded as a model of business organization and a method of managing it as well as a principal of building intercompany cooperation.[6, 8]

Network structures based upon horizontal interconnections create synergetic effect stimulating creative cooperation of internet links. The main advantages of a network form are creativity, flexibility and multiplicative effect. Before modern information technologies appeared this kind of cooperation could be reached mostly through personal communication that limited sizes of new structures. Information revolution allowed critically broadening scales of net cooperation, giving it transnational and even global character. Networks became a frame of globalization.

Turning Russian economy into "knowledge economy" will demand different quality of Russian cities which must compete in order to attract creatively thinking group of people to their areas. The places of innovation growth for building a new model of economy and for aligning living standard of Russian population will theoretically need all around the country. It has a strategical meaning for the nation but in a near-term prospect – for about r a period 0f 10-15 years – but the most suitable places for creating innovation industries will be probably in big industrial cities.

The point is how they cannot fail in trust if they practically depleted their technological resources. That is the question, in our opinion. It is no wonder that even from big cities there is a massive outflow of intellectual elite to Moscow, St.Petersburg, abroad and the crisis just aggravated the situation. Talented people – researchers, engineers -that big human capital with which the nation connects its hopes for innovation way of development do not want to stay in industrial cities with bad ecology, poor criminal situation and weak communication infrastructure. They need the other environment, the other culture-information space which cannot be compensated with apartments and roads. Perhaps because of this it will be necessary to build environment for generation of innovators in some other "second-best" places. As a rule they are near big industrial centres but unlike them they are more clean, calm and compact.

For example, in some regions of Russia - in Rostov, Leningrad and Tomsk regions - there is already some experience how a state should build new environment for people with high-skilled competence. For example, in Tomsk region there are three universities with 150 thousand students, 11 research institutions with 400 science-intensive plants and totally built innovation infrastructure starting from business-incubators and techno parks for growing and commercializing advanced scientific ideas to special ultramodern techno implementing zone with privileged tax, customs, administrative modes. In this region there are already 45 residents who produce different kinds of innovation nana-, bio-, tele- multiproduction. Main consumers of it are such branches as medical care, communication, agrocomplex.

Innovation is such a tree which cannot grow in common soil that is why not all Russian regions can make a claim for starting developing their own "Silicon Valleys" from scratch, without science and human capitals and innovation business. That is why the government must determine the criteria of innovation potential of Russian areas in order to include them into the system of region rating for getting top-priority state support. In fact, just those regions which have at least some basic universities and research institutions can compete for the right to be considered as innovation areas because only these scientific establishments can create special innovation zone of vacuum absorbing of progressive ideas.

In its turn, these areas will attract innovation companies from neighboring territories. To make a region promote innovation companies it is necessary to critically revise tax and budget systems. At present regional budgets are formed also at the expense of plant property taxes. It is of no sense to compare in the context of tax filing of budget big industrial plants with their large means of production with innovation companies which have in their disposal just ultra-modern computers. It is also necessary to evaluate differently budget tax revenues from innovation plants. Unlike "raw material" or industrial companies the structure of "innovation "tax should be different. That is why there need to create additional motivations for it.

To "select" special innovation zones we can divide the country into three types of areas – "growing" which should be given maximum sum of money and freedom, "shrinking "(depressing) which should be gradually limited in donations and "restructuring" which try to overcome stagnation. Government should use different control strategies to these three types of areas.

In connection with this orientation to innovation model of development it should consider big industrial cities in Russia a base for transferring to innovation zones. Industrial cities with their experience of rationalization and rationalize will be actually able to become the main place of growing new generation of innovators.

For 10-20 years it is possible to solve a problem of building innovation economy in Russia but the government support here is of great demand. It is necessary to see government structure and powers' distribution in a new light in order to build such economy. It is very important to support so called business-angels – private structures which are ready to invest capital into venture projects that support innovation projects in Russia.

The main idea of innograd "Skolkovo" is to make a base where principles of functioning "ecosystem" of innovations which is special for Russia could be trained. As to the criteria and mechanisms of selecting projects for Skolkovo, it is impossible to act just with administrative methods. No science-technical counsel or an official can succeed in it. The principal of selection must be market-oriented; whoever would vote a project it should do it only with his/her money.

It is necessary to encourage venture funds to analysis and selection of tenders. Venture capitalists choose companies for their portfolio on their own, without expert council and scientists at hand. Each partner is totally responsible for his/her decision both before his/her investors and partners voting with his/her own money. However, conditions of attracting venture funds are essential. The circle of venture funds at the moment is very narrow. But most people working in this sector are high-skilled businessmen. The main task is to give them a market motivation.

However, with developing innovation projects and human resources, it would be wrong to copy Silicon Valley: Russian innovation branch should develop in its own way. In would be also wrong in a long-term prospect to be limited with just Skolkovo. There are many perspective innovation centres in Russia such as Novosibirsk, Tomsk, Kazan, Rostov-on-Don and so on. In the USA there are also other similar centres besides Silicon Valley – such as Boston, North Carolina, San-Diego.

In order to boost innovation economy development it is necessary to build complex infrastructure which should include not only real estate, business-incubators, laboratories and developers. There need the whole system of services maintaining this infrastructure: legal advisors, patent advisors, venture funds, investment banks, contract research and developments. Favorable business environment and innovation culture are also very important.

Another key factor of success is an access to interesting projects. Unfortunately, here in Russia a number of perspective companies especially in the sphere of biomedical technologies are very limited. Among already existing venture funds and development institutions there is serious competitiveness around these projects. There is more capital on the market than Russian technological industry can merge. That is why it is very important to get an access to interesting technologies of international scale in other countries. It is necessary to take into account that now the most important thing is not what area in the world Russian money will be invested in but which technologies as a result of these investments Russian investors will get. To develop human capital Skolkovo "ecosystem" should enter world "ecosystem" of technologies. Innovation business is always global and it is impossible to build it in a particular country.

The other aspect of integration is backward movement from global market to a local one. It is very significant to bring perspective technologies to a Russian market if there are no any of them now. It can be done if we integrate Skolkovo "ecosystem" into other countries' "ecosystems", into Silicon Valley, in particular.

Right now a lot of portfolio companies can be taken to Russia there are infrastructure and financial premises (capital availability and professional companies' presence which dome contract research). But there is no special interest from Russian side which would be reasonable for such movements. It is necessary to do such transfer for the companies which have just started their development. In this case more part of their business could be built in Russia.

Innovation-oriented company needs to be boosted so that it could enter new business environment. It is necessary to make conditions in which it would be attractive for this company to establish in Skolkovo. For example, financing particular research programs In Russia could be provided at the expense of attracting investments). First, it is necessary to concentrate on less demanding spheres such as information technologies (IT). Information technologies business in Russia is on a good world level. It is significant to focus on innovation research and intellectual property but not on manufacturing.

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MICROFINANCE REGULATION INTENSIFICATION OF TRANSNATIONAL BANKS IN EMS AS THE DETERMINANT OF SYSTEM CRISIS RECOVERY

The article is devoted to research of macrofinancial mechanisms of national economy's regulation in conditions of overcoming the system crisis. In this work the theoretical and practical aspects of improving cooperation between state and interstate movement of transnational regulation of bank capital in emerging market economies are analysed.

Keywords: transnational banks; international banking; macrofinancial regulation; system of interaction with the international banking business, global financial crisis, the penetration of foreign banking capital; countries with Emerging Market Systems.

Стаття присвячена дослідженню механізмів макрофінансового регулювання національної економіки в умовах виходу з системної кризи. В роботі проаналізовані теоретичні та практичні аспекти удосконалення системи взаємодії державного та міждержавного регулювання руху транснаціонального банківського капіталу у нових ринкових економіках.

Ключові слова: транснаціональні банки; міжнародна банківська діяльність; макрофінансове регулювання; система взаємодії з міжнародним банківським бізнесом; світова фінансова криза; проникнення іноземного банківського капіталу; країни з ринками, що формуються.

The global economic crisis has caused profound changes in international markets of bank services and capital, and also had important consequences for the structure of both the global currency-financial system and the local financial markets. One of the leading tendencies of modern international economic relations consists in profound transformation of macrofinancial regulation in field of cooperation between national-economic systems with transnational banks, caused by radical influence of globalization of financial capital.

Globalization of the world's financial resources has led to the reduction of the influence of national governments in emerging market economies on national finances. Simultaneously, the influence of transnational banks, international institutional investors and international speculators on national financial markets is amplifying. In globalization the condition of national finances is increasingly dependent on the behavior of residents who actively show their presence on the national financial markets, the condition of financial markets in other countries and regions, as well as from the variability of conjuncture in international financial centers.

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The negative consequences of these processes were particularly evident during the global financial instability of 2007-2009. As a result billions, accumulated in several global speculative funds, giving in to panic about the loss of assets were transferred instantly from one currency to another with only one computer keyboard pressing, demonstrating in such a way the ability to destabilize the monetary system of any country. Moreover, the implementation of new information systems and banking technologies led to an increased financial capital's ability to move quickly. The urgent need to intensify the macrofinancial regulation in field of the cooperation with transnational banking capital in emerging market economies as a factor of overcoming the system crisis has especially sharply risen after the series of regional monetary and financial collapses.

Theoretical concepts of methodological and institutional aspects of economic development macrofinancial programming in conditions of the banking business internationalization conducted in the work of such scientists as P.Allen, I.Ansoff, B.Buchwald, E.Barucci, J.Bhagwati, S.Claessens, A.Greenspan, R.Levine and others.

Among the famous scientists who have made their contribution into the development of methods and practice of interaction with transnational banking capital in emerging market economies, it is necessary to note the researches by T.Ash, F.Di Mauro, V.Dinger, D.Dwor Frecaut, K.Forster, A.Hawser, J.Keay, K.Pawar, J.Riedel and others..

Global calls of the financial crisis are basically reduced to consideration of several issues about which mechanisms should be applied to mitigate its negative effects on the development of the global financial services industry. Also, the problematic of future world banking sector s, which in post-crisis period must acquire new features and get a qualitatively new socio-economic content, requires essential scientific reflection.

It should be noted that the collapse of one of the largest transnational banks Lehman Brothers became a disaster not only for the global financial sector, but for the entire global economy. Despite such measures as government guarantees of schemes, some reduction in the use of indirect monetary policy introduced by national governments of industrialized countries suffered to rescue financial institutions, the future of many large banks remains uncertain. After all, the most visible results in the stabilization of global financial system, as well as enhancing investor in international financial markets, has been achieved through direct government intervention.

The financial markets continue to struggle with opaque capital structure, which often exceed the reasonable limits of adequacy of banks' balance sheets. Along with writing off inactive (hopeless) of assets, reducing their balance sheets as banks try to keep regulators proposed capital adequacy levels, although mobilize new financial resources at the present stage is extremely difficult. The current world financial market looks desolate, because it lost tens of trillions of dollars in the period 2007-2009 [10, p. 41].

Despite the use of all tools of action by governments of different countries for rehabilitation of national financial systems, there is still an acute problem of availability of sufficient sources of private capital that would balance the economic performance of large multinational banks. First, banking circles emphasize that at the present stage of development of world economy there is no holistic "financial landscape", and left only "financial ruin". International banking is in the situation, the dominant component of which is that some big financial institutions continue to struggle for survival, and their shares are traded at a price, which ranges from 60 to 70% of their real value [1].

In these conditions, especially great significance is increasing regulatory and supervisory role of the state as at the macro level and intergovernmental cooperation on megalevel of world economy. Before the country is first priority to minimize aggressive expansion functions of international financial capital, deep transformation in regulatory policy are expected at the global level. A number of bank control could not predict the time and assume that the size of some banks become so wide that a country simply will not be able to save them. For example, even in the UK and Swiss government circles were shocked by what some of the capitalization of financial institutions is greater than the amount of economic potential.

Regulatory authorities of many countries also failed to detect those difficulties which arise in the functioning of the structures with cross-border assets. However, the impact of international regulatory rules and regulations can be effective only if the authoritative intergovernmental supervisory body, which is in crisis can become a lender of last resort. Before the heads of central banks of different countries at the present stage there is the most important issue of forming a new global economic regulatory institution that should be provided with adequate powers and resources to prevent global shocks of 2008 in the future. It should be the main task of the International Institute will be the formation of new rules to control the level of risk that multinational banks are building portfolios of active operations [7, p. 650].

Introducing a series of regulatory measures to normalize the situation in the financial services industry in late 2009, such as stabilization packages for large banks, changes in monetary policy but also on financial incentives had some positive results. In particular, thanks to central bank intervention gradually decreased liquidity shortage, there has been renewal of various financing instruments, began trading on the bond market to cover. However, high levels of bad loans (non-performing loans - NPL), unsecured assets and credit losses banking groups in a purely quantitative assessment gives reason to consider the need for nationalization of some structures.

Therefore, the most effective means at the present stage of withdrawal from systemic crisis was massive recapitalization of banks with the mandatory state participation. In addition, banks will be quite difficult in the coming years to mobilize new capital to offset current and future losses without government assistance. Thus, large Western European banks during the crisis period of 2008-2009 could reach $ 175 billion, of which 62% - with the issue of new shares and about 57% of concentrated capital was provided by national governments [11].

However, the wave of nationalization that swept the global financial sector, financial institutions complicates the task of mobilizing capital for investors as the situation in this case remains uncertain and obscure. Banks initially go to market places to raise cheaper capital through issue of hybrid shares. But the closure of markets for hybrid instruments financial institutions were forced to produce more expensive preferred stock, and that until the market is not closed. Another area of increasing capital for banks became sovereign funds, however, after investors began to absorb the losses of banks, the cost of capital was very high. Lack of clear understanding by investors of complex capital structure of banks has made them almost impossible for equity contributions, but use the simplest and most expensive instruments entering the stock market. At the same time, investors are concerned about the nationalization of financial institutions and the massive dilution of shareholding, which also creates difficulties for banks in the mobilization of net equity. It is not wrong to compensate for losses due to the use of hybrid instruments that contain the obligation to repair the damage after 10-20 years.

Comparative analysis of modern ways of reforming government regulation mechanisms MFA in cooperation with multinational banking capital suggests that the situation in China is instructive example of reverse trends in the financial market, where, unlike Western markets during 2009 unfolded credit boom. Only the first half of 2009 Chinese banks provided loans totaling about $ 1.1 trillion. and actively continue to finance various projects in 2010 [9, p. 58].

It is important to emphasize that Chinese banks are performing and scenarios developed by the government in lending plans for the national economy. However, they have long exceeded their designed for government loan volume indicators, but continued pursuit of profits. Probably later portion of these loans will go into the category of bad debt, but the Chinese bankers have shown particular concern because government policies aimed at increasing the money supply as banks are well protected as self-supporting.

Forms and methods of stimulating business activity in the real sector of the national economy of China have been worked out yet 80-years, the twentieth century. When the government directive regulating lending banks unlimited large state enterprises. However, the policy decision on lending led to the accumulation of financial institutions y huge amounts of bad debt, borrowers who never intended to return. On 01.01.2004 their volume reached a mark 20,4% of total loan portfolio of the banking sector, which constituted 16.5% of GDP in China.

These negative processes threatened to escalate into default, the macroeconomic situation in China, but it is government measures to transform the regulatory mechanisms of macro-financial instability allowed to minimize risks. In particular, was established banking regulatory commission (SVRS) as an institute of state of crisis management, under the supervision of the national financial institutions were directed $ 100 billion of public funds, and preferences were formed to attract multinational banks, as foreign strategic partners, except cheap financial resources, the Chinese bankers provide best practices, knowledge management and business technology. By the end of 2008 the bad debt declined to 2.5% of the loan portfolio, which is also accompanied by profound changes in corporate culture: employees of financial institutions began to act as strategic managers, a not-leaders as agents of government policy.

The consequence of this reform was the way of big Chinese banks on the trajectory of self-sustaining growth, which clearly shows listed in the Hong Kong Bank of China, Industrial and Commercial Bank of China and China Construction Bank (CERs). It is important to underline that the present credit and financial institutions have shown relatively high economic results during the global economic crisis and global recession, particularly in cer tax profit 01.01.2009 increased by 26.9%, almost 120 billion yuan ($ 17.5 billion .) CER has become a leader in the field on speed increase in income from interest and commissions (22.8%). In addition, the Bank has established special branches to serve small and medium enterprises, management of cash management services and investment banking, expanding base of retail customers and increasing amounts of wholesale operations, where cer ranks first in the country in areas of infrastructure finance and insurance of mortgages. Thus, 98% CER business is concentrated in China, where there are 13.4 thousand branches and the world's largest ATM network (ATM 31.9 thousand 01.01.2009 [12, p. 72].

It is clear that the global crisis has reached China, extremely high rates of economic growth, which is still provided social stability (increasing the number of jobs at 20 million per year) in the past. Liquidity flows have already reached the maximum marks on the stock exchange, real estate market shows rapid growth in prices. In addition, Chinese exports fell sharply during 2009 - an annual decline was 23%, a foreign direct investment decreased by 35.7%. It should be noted that the state policy of China in the MFA program of economic development priorities clearly maintains macroeconomic dynamics, even ignoring the risk of braking the pace of innovation. State not only led the bankers to finance half of the package to stimulate the economy (4 trillion. RMB, or $ 586 billion), but strongly encourages them to further expansion of credit. Although the Central Bank of China is aware that so much of the credit terms would inevitably affect the money supply and inflationary expectations, the proportion of bad debt continued to decline [8].

During the first quarter of 2009 only 37% of loans were medium - and long-term, which were intended to finance infrastructure projects. Also, the Central Bank of China has spurred the credit activities of financial institutions, taking the decision to lower requirements for borrowers engaged in infrastructure development. For projects of roads, railways and metro maximum acceptable ratio of equity to total assets was reduced from 35 to 25%, a marine ports and airports - up 30% to facilitate local government access to bank loans.

However, it should be noted that although exports and ceased to decline, through a massive increase in credit spreads associated with increased risk of default and its annual decline in the first four months of 2010 reached 21% More than half of the loans (2.4 trillion. RMB) were short-term, and from about 1.5 trillion yuan - a loan granted for the payment of current accounts. Since early 2009, their volume increased by 150%. This means that money on low rates seem to save companies that have threatened bankruptcy (at least for the moment), or to finance risky speculation on the stock exchange and real estate. In addition, economic stimulus program that contained 53 thousand new infrastructure projects, increased the budget deficit in 2009 to 3% of GDP (a record for the past 30 years) compared to 0.4% in 2008.

In this context it is important to mention the Asian financial crisis of 1997-1998, when Chinese banks by the same mass rapidly expanded lending resources giving insolvent state companies. The result of this policy was the huge accumulation of bad debts, which the state bought the exit of its largest financial institutions on the IPO. It is likely that at the present stage of the Central Bank of China policy seeks to use the same scheme - to buy banks' risky debt y during the period when the economy starts to generate money to pre-crisis rate. In particular, previous recapitalization for financial institutions, China's government has earmarked $ 100 billion, representing 5% of total foreign exchange reserves, and thus became the main priority of macro-financial load banks bad debts and subsequent recapitalization as one of the mechanisms used to guide state its currency reserves in the real sector of economy [4].

It is important that the hyperactive role of government in cooperation with multinational banking capital is a negative reaction in Western economic circles, because of these schemes inevitably suffer investors (primarily foreign). First, involvement of state capital in their packages will be blurred. But more real damage to the interests of international investors a potential increase in the percentage of bad debts. After all, when they bought shares in Chinese banks during the IPO placement, he believed in the prospect that these institutions, which in the past were simply agents of service to government subsidies, reform of the subjects are able to generate profits. Moreover, for most investors is the most important was the promise of the PRC's banking on a radical reform. Effectively functioning banks, whose activities are based on commercial principles, are crucial for long-term economic progress of China. It is clear that at the present stage to overcome the economic crisis the country needed economic stimulus, but for her important and banks that allocate capital efficiently and managed in a credible regulatory regime.

Considering the contradictions of contemporary processes of transnationalization of banking capital in emerging market economies in terms of global transformational aspect out of systemic crisis, we can state that during the next 3-5 years, the global banking system becomes qualitatively new features. Major banking groups in most States, both industrialized and countries that carry out the transformation system will look completely different: some of them go bankrupt, while others will be absorbed by more successful competitors. Even the U.S. banking system at the present stage dramatically different from the one it was the end of the twentieth century. Investment banks ceased to exist and have been converted into bank holding companies, banks focus on its core divisions, and times when financiers were making money out of the air remained in the distant past.

Select models of macro-financial priorities of cooperation with multinational banking capital to Ukraine as a prerequisite out of the system crisis also requires a thorough rethinking. After the application of Western liberal model is premature, and using the Chinese model is not feasible for many reasons, including lack of significant amounts of foreign reserves, a large corporate debt, as well as smaller scale domestic market [3].

In general, analyzing the modern history of banking regulation in Ukraine should pay attention to the seemingly paradoxical existence of permanent conflict between the strategic (and, as practice shows, most positive) regulatory initiatives and current interests of the banking market. As a representative example is the efforts of National Bank for a year before the crisis against dollarization of the banking sector and restrictions on consumer lending in foreign currency. These efforts were unsuccessful due to strong resistance to the banking community. Financial terms have not agreed to lose a considerable part of the business and managed to delay this limitation, though aware of the high level of foreign exchange risks.

As a result, only in the first half of 2008 was issued to the population of foreign currency loans (including mortgage) in an amount exceeding $ 7 billion, why, this is a wrong trend dominated the peak of growth in property prices, which subsequently depreciated. As a result, a large proportion of these loans (40%) for the banking system was problematic [6, p. 45].

Given the drastic reduction of the resource base of the banking system Bank policy priority was improving the capitalization of financial institutions. Among the latest innovations in this area is worth mentioning the establishment of requirements to the minimum regulatory capital of at least 120 million. In addition, preparing for the second reading in Parliament a bill on amending the Law of Ukraine "On Banks and Banking, which proposes to increase the requirements for minimum registered capital up to 500 million hrn [5].

However, even in post-crisis period, which requires constructive engagement from the owners of commercial banks for additional capitalization, there is resistance banking community. As the crisis, when there were established standards of banking supervision, Basel II, most reputable Ukrainian bankers insist on the timing of innovations. The reluctance of shareholders to increase capital of banks is quite natural phenomenon, because economic activity is unprofitable sector, and adequate income are expected only in the long run. This reluctance is typical for large and small banks, both domestic and international subsidiaries of banking groups. However, an alternative to capitalization (as a tool for improving the reliability of banks) was not found. Increasing capital requirements of banks is not only a national feature of Ukraine, speaking at the present stage of a global trend of financial markets.

Obviously, the higher requirements and standards of control over banks is a global trend and to recognize that the rules on the world market soon will dominate the domestic financial sector regulation. This statement applies not only in establishing standards of capital adequacy but also a wide range of business practices is an example of why the introduction of the new Law of Ukraine "On Combating the legalization of criminally derived proceeds." Standards Act regulations strengthen the financial monitoring for banks, causing a negative reaction to the banks. However, the adoption of this law was in effect adaptation (approximation) norms of Ukrainian legislation to international standards in Western countries is even more stringent [2, p. 10].

In particular, at the EU directive matter laundering "dirty" money are increasingly considered in the context of the so-called compliance (compliance with regulatory requirements and rules of professional conduct). Compliance requirements are not limited to money laundering, they also include rules to prevent corruption, regulation of banking practice transactions with insiders, use of insider information when making transactions, and set standards to prevent conflicts of interest.

It is important to emphasize that the affiliated establishments of transnational banking groups that function in Ukraine, are already beginning to implement these rules, regardless of their introduction into Ukrainian legislation, because already in the short run any Ukrainian credit-financial institution is unlikely to qualify for borrowing on international financial markets, if not meet the standards of compliance. At the present stage of withdrawal from systemic banking crisis must not only meet national requirements MFA regulations, but also international standards and norms that determine the development of global regulatory environment.

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Ruskykh Katyryna*

EUROPEAN BANKING GROUPS IN CEE COUNTRIES: EXPOSURE AND POST-CRISIS STRATEGY

В статті розглядається процес консолідації банківської системи в Європі та роль країн Центральної та Східної Європи (ЦСЄ) в ньому, визначається роль країн ЦСЄ у діяльності основних банків-лідерів регіону і зміна їх стратегій в результаті світової фінансової кризи.

The article deals with consolidation in European banking and focuses on the role of the Central and East European Countries (CEE) in this process. The author defines the role of CEE in the activities of leading European banking groups in the region and elaborates on changes of this role as a consequence of the world financial crisis.

Key words: bank consolidation, European banking groups, Central and Eastern European Countries

In 1990-2000s bank consolidation gained a foothold in the world due to financial system deregulation, liberalization of international trade and capital flows and technical progress that reduced the costs of mergers and acquisitions (M&A). Bank consolidation had above all domestic character, as most M&A deals involved domestic banks. This led to almost twofold decline in the number of banks in the USA and EU between 1990 and 2006 [15,1]. Although smaller in number than domestic, international bank M&A started to gather pace, involving the largest financial groups in the USA and Europe.

The topic of bank consolidation is widely studied both in Ukraine and abroad. In Ukraine this topic was researched by Z. Vasylchenko, V. Mistchenko, A.Shapovalov, N.Sheludko, B.Gubskiy, A. Philipenko. Foreing scholars, who studied bank consolidation in Europe and Central and East European countries, are A.Berger, S. Claessens, R. G. Gelos, J. Williams, M.Fritsch, T.Poghosyan, D.Schoenmaker and others. This paper builds on the research of the named scholars and uses their conclusions and methods to measure post-crisis exposure of the European banks to CEE based on the most recently available data.

The goal of this research is to define the role that Central and Eastern European (CEE) countries play in the European bank consolidation and the activities of the largest European banking groups in the region. With respect to the recent financial crisis, the article highlights, how this role has changed or might change as a result of the financial distress in Europe. This research helps to answer, whether CEE region is strategic for the EU banking groups and whether they are here to stay, or might exit, because of the difficulties caused by the crisis. By discussing post-crisis changes in the banks' strategies in CEE, this research falls thematically into a broader topic of the post crisis structural changes of the world economy.

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The methodology we use is literature review of articles, annual financial reports of the European banking groups and their presentations. We calculate the exposure of EU banking groups to CEE region based on three indicators (assets, revenue and employees) that measure the share of bank activities in the CEE as a percentage of total activity of that bank. This method is a modified Transnationality index of Schoenmaker that he used to estimate cross-border activity of banks. The difference is that we focus only on the banks activity in the CEE, instead of studying all their foreign activity.

By creating Single Market and deregulation of capital flows between Member States, the EU has sought to strengthen the consolidation "... towards an integrated, open, inclusive, competitive and economically efficient EU financial market" [19, 4]. The European Union’s 199 Financial Services Action Plan established a legislative regulation for single financial market with improved prudential regulation and adequate financial supervision [5, 27]. However, despite the favorable regulatory and economic environment, domestic mergers and acquisitions of banks prevail in the EU as well as in the U.S. and. In 1993-2004 domestic M&A took a 74% share in total number of bank M&A in the EU and a 70% share in total sum of M&A transactions. Moreover, consolidation had largely the character of horizontal integration, as took place most often between commercial banks [5, 33].

However, ‘regional component’ of bank M&A in the EU was much larger than in NAFTA and ASEAN countries. Schoenmaker calculates this regional component as a share of bank activities (assets, revenue and employees) inside the union to total activity of that bank. According to Schoenmaker in 2005 the regional and global components of bank activities were 23% and 25% in the EU versus 9% and 13% in NAFTA and 5% and 9% in ASEAN.

Thus, consolidation between banks in the EU countries is much higher than in other regions of the world, but it is approximately equal in magnitude to the global expansion of the European banks. A large share of bank consolidation in the EU happened between the banks in Scandinavia and the Benelux countries. Those banks consequently became the large universal banks, whose businesses include commercial banking, investment banking, insurance, asset management and other. In addition, after the accession of CEE countries to the EU regional M&A gained momentum, although the share of CEE in the total number and value of the EU M&A transactions was small and averaged at 4% in 1990-2005 (see Figure 1). During 1996-2005 the European banks made around 27 agreements on the acquisition bank shares in Central Europe, 26 in the Balkan countries and 3 in the CIS countries and spent around 27 billion euros [4, 11], [6, 23]. This led to a significant increase in the share of foreign banks ownership in CEE countries, which in 2005 ranged from 56% in Hungary to nearly 100% in Estonia and according to the European Central Bank, these shares did not change a lot till 2010, because the banking systems of CEE have already been saturated after the arrival of key foreign banks in early 2000s.

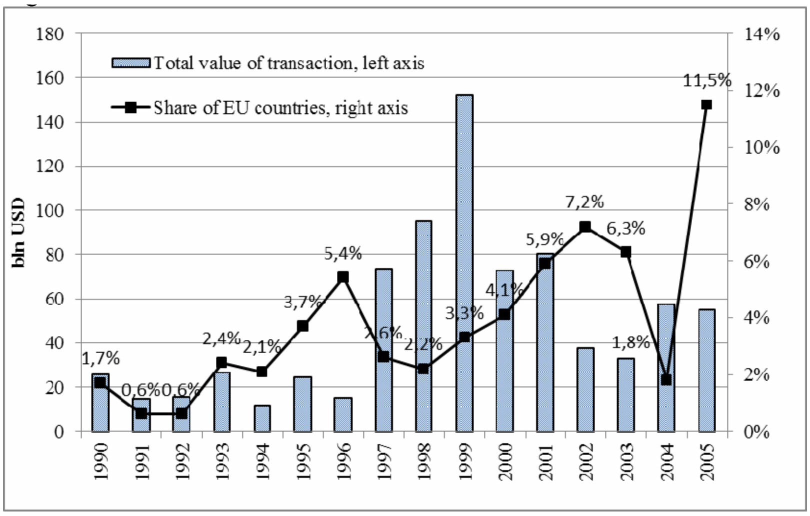

Figure 1: Share of CEE countries in the total value of EU banks M&A
Source: Fritsch M., Gleisner F., Holzhauser M. Bank M&A in Central and Eastern Europe. - Working paper #2007-418. - E-Finance Lab, Frankfurt, p. 21

The key reasons that motivated European banks to buy banks in CEE are the following:

- A large proportion of European banks' clients doing business in CEE, what encouraged banks to acquire local financial institutions to optimize customer service.This is indirectly confirmed by the fact that the largest banks in CEE are owned by their major trading partners in the EU.
- Due to high competition in the domestic market and consequently low profitability European banks wanted to use the potential of growth and profitability of the underdeveloped financial systems of the CEE countries. Indeed, banks in CEE are more profitable than banks in old member states, however, as we will show below, the largest portion of the income of the biggest banks in CEE comes from their business in advanced countries, including their domestic markets.
- Shareholders of European banks are interested in increasing the market value of the banks through acquisition of banks in developing countries, in particularly in CEE.
- Given little possibilities for expansion in domestic markets, European banks are seeking the opportunities to utilize their competitive advantages in CEE.
- European banks strive to diversify their own business. However, diversification can lead to decrease in market value due to erosion of profits of banks.

Why European banks were more interested in acquiring banks in CEE countries, than in other developing countries? Economists explain this by including such factors as geographic proximity, cultural and linguistic similarity and the similarity of legal structure (due to EU accession and harmonization of legislation [8]. In fact, the Austrian banks adapted quickly and took advantage of geographical proximity; cultural similarity and common historical past in formulating its new investment strategy targeted at Eastern Europe [20, 2].They also followed the Austrian business, which also began to actively invest in the CEE countries.

As a result of consolidation the major banking groups operating in the CEE countries are Unicredit (Italy), Raiffeisen International (Austria), Erste (Austria), KBC (Belgium), Societe Generale (France), Intesa Sanpaolo (Italy) and OTP (Hungary). These groups are the leaders or one of the largest banks in their domestic markets. Societe Generale, Unicredit and Intesa Sanpaolo belong to top 10 the largest banks by assets in Europe. In addition, almost all of these banking groups (except OTP and Erste) also do business through its offices outside Europe (in the U.S. and Asia), acting as global banks. All listed banking groups are not limited in its strategy by only CEE countries that joined the EU, and after entering these markets, continued expansion to Balkan and former Soviet Union countries.

For Societe Generale and Intesa SP the market of CEE countries is not strategic, as it takes a small share of their total assets, total employees and revenues (see Table 1). SocGe and Intesa are powerful universal banks (4th and 8th place in Europe by assets, 5th and 8th by market capitalization [9, 8]) that receive income from commercial banking, corporate banking, investment business, asset management, insurance and other financial services. Moreover, Societe Generale receives the largest share of its revenue from corporate and investment banking (32% for 2010), services in domestic (French) market (28%) and from banking services of its international units (22%, this includes CEE countries, Mediterranean and Africa, and others) [14, 43]. Societe Generale is the leader in Italy, where the key business of the group is concentrated (78% of total revenue) [9, 27]. Intesa gets major profits from commercial banking services in Italy (58.1%), corporate banking and investment banking (20.3%) and subsidiary banks in CEE (here CEE, the Balkans and the CIS), Greece and Egypt (13,5%) [9, 27]. Thus, for these banks CEE countries are important for the aim of business and income diversification primarily through the provision of traditional (commercial) banking services.

Table 1:
Indicators of the largest EU banks' exposure to CEE[1]

	Assets in the region, bln euro 2008	Presence in CEE, number of countries (2008)	Number of branches in the region (2008)	Share of CEE in total assets % (2008)	Share of employees in the total number[2], %	Share of CEE in total revenue[3], %
Unicredit	121,6	19	4005	12	29%	18%
Raiffeisen	85,4	16	3231	54	52%	39%
Erste	79,3	7	2099	39	60%	58%
KBC	71,6	12	1940	20	58%	51%
SocGen	65,9	16	2609	6	<30%	<18%
IntesaSP	42,5	11	1781	7	NA	3%
OTP	35,2	9	1573	100	100	100

Source: [2, 18]: Calculated based on the Annual reports of the banking groups for 2008-2011

KBC is the second largest Belgian financial group engaged in banking and insurance foremost on the domestic market and in the CEE countries. Before the financial crisis KBC received the most portion of revenue from financial services in Belgium (44% of all profits in 2007) and corporate, investment banking and other services (28%)[4] . However, against the huge losses from the later, the share of revenues from commercial banking and insurance in Belgium and CEE countries in 2008 and 2009 increased to 48% and 53% and to 69% and 51% respectively[5]. In 2009 the group received substantial income in Belgium. The business of KBC in CEE are less diversified than in most of the named financial groups, as the group primarily focuses on the new EU member countries (Czech Republic, Slovakia, Hungary, Poland and Bulgaria) and in addition on Serbia and Russia. Despite the losses in CEE in 2009, the region plays more important role for the group than for Societe Generale and Intesa, as well as provide greater and more stable share of income especially against the poor results of corporate and investment business during the crisis.

The share of the CEE countries in the business of the financial group Unicredit is also relatively small, as it accounts for only 12% in total assets of the group, 29% in all employees and 18% in total revenue. However, Unicredit has positioned itself as the largest bank in CEE, which has a strategic interest in its presence in these countries. The bank is a leader in CEE not only by assets, but also by the number of branches and countries of presence, including new EU Member States, the Balkans and CIS countries. The interest of Unicredit in CEE is explained by high profitability of business in these countries. Indeed, Unicredit after 9 months of 2010 received 56% of profit before tax in the CEE countries. The largest contribution to the income of the group gave Poland, Turkey (the bank considers this country as part of the region), Russia, Croatia and Czech Republic [7, 5]. Apart from CEE Unicredit is active in Italy, Germany and Austria, which provides retail and corporate banking services. The shares of Italy, Germany and

[1] Indicators in the table are not comparable.
[2] Data is taken from 2008-2010. Where possible, we tried to exclude Russia, Turkey, and Central Asia countries from calculations.
[3] Data is taken for 2008-2010. Where possible, we tried to exclude Russia, Turkey, and Central Asia countries from calculations. Depending on the availability of the information the revenue indicator for different groups stands for operating profit, operation revenue or total revenue
[4] Annual report 2007
[5] Annual report 2009

Austria in the retail banking business of the group are 13.3%, 3.3% and 15.9% of all outstanding mortgage loans respectively (for comparison in CEE such share is 6.9%)[6]. Income from investment banking of Unicredit significantly decreased because of the financial crisis: the share in total revenues fell from 6.4% in 2007 to 4% in 2008. This business became the most lost-making [12].

Raiffeisen and Erste - Austrian banking groups for which the CEE region is strategic by assets, employees and income. Raiffeisen has a wide presence in Central Europe, Balkan countries and former Soviet Union, while ERSTE is more focused on the new member states of the EU plus Croatia and Ukraine. For Raiffeisen CEE countries bring more revenue than its domestic, the Austrian, market: in the first 9 months of 2010 operating income in Austria amounted to 7.2%, and for Central Europe, Balkans and CIS countries to 27.9%, 25.6% and 27.1% respectively [13, 25]. Raiffeisen is competing for leadership in the CEE region with Unicredit. Unlike Raiffeisen, Erste is less focused on increasing physical presence in the CEE countries and aims at getting the largest market share in the countries of presence. In Austria, the Czech Republic, Romania and Slovakia Erste holds top 1-2 market position in various types of banking services, and in Hungary and Croatia holds top 2-3. CEE countries brought in 2010 and 2009, approximately 58% of total operating income of ERSTE [17, 3-7].

OTP is the only exclusively regional bank that originates from Hungary and works only in the CEE. The key business is located in the domestic market, the Hungarian market, which share in the group revenues in 2008 amounted to 66%, and in 2009 the parent bank in Hungary was the only profitable, while foreign subsidiaries showed losses. In Hungary, OTP business is the most diversified, as the bank provides retail, corporate, insurance services and asset management services. Besides domestic market, the largest share in OTP revenue comes from Bulgaria, Ukraine and Russia - 11.3%, 10% and 9.1% respectively[7]. Despite the fact that the financial crisis has hit the region hard and the large losses of subsidiary banks in Ukraine, Slovakia and Serbia, OTP managed to remain profitable due to its domestic market and Bulgaria.

Having analyzed the activities of major banks in the financial markets of the CEE countries, we can conclude that the role of these countries in the process of banking consolidation in Europe was, first, to provide opportunities for expansion of universal banking group, the leaders in their domestic markets in the Western Europe (Unicredit, SocGen, IntesaSP and KBC). These groups were interested in diversification of business by traditional banking services in the growing markets in the region. High entry barriers and saturation of the markets in other countries of the Western Europe on the one hand, and relatively low cost of banks in CEE, on the other hand, made CEE countries attractive to increase its capitalization and the value of the groups. Due to the expansion into CEE the banking groups were able to establish itself among top 10 largest financial groups in Europe. Second, bank consolidation, with the participation of CEE countries has led to the formation of regional banking groups (Erste, Raiffeisen and OTP), for which the CEE countries have become a strategic market.

All the banking groups, including regional, in their strategy are not limited by their presence in Central Europe, but also extended their activities in the Balkans and CIS countries. Moreover, for Unicredit, SocGen and IntesaSP expansion to the CEE markets was followed by the expansion to other non-European developing countries, and expansion of investment and corporate banking to the U.S. and Asia, implying their global ambitions. The same thing is for the large European banking groups operating in CEE, but we have not mentioned in the articles because they are less represented in the region: BNP Paribas, Credit Agricole and ING Bank.

[6] The information is retrieved from the official Unicredit website: http://www.unicreditgroup.eu/

[7] Annual report 2009

In the pre-crisis years, the growth of liquidity in global financial markets, high risk appetite of investors and expanding global banking groups, pushed ambitious European group that had already taken root in the new EU member states and the Balkan countries, to the riskier markets of CIS countries, including Ukraine. In 2005, Raiffeisen bought Ukrainian Bank Aval with a multiplier the price to book value (P/BV) of 3,2, and already in 2006-2008 European banks bought Ukrainian often even at higher price: BNP Paribas bought Ukrsibbank with a multiplier of 3,4; Credit Agricole bought Index bank with an extraordinary high multiplier of 7,2; OTP bank acquired Raiffeisen Ukraine at 5,2; Unicredit bought Ukrsotsbank with a multiplier of 5,6; Intesa bought Pravex Bank of with a multiplier of 5.2 [16, 128].

High interest of the banking groups in the pre-crisis years in highly profitable retail banking services under conditions of high liquidity in international financial markets and high growth economies of the region contributed to the credit boom in these countries. As a result of the accumulated private sector debts that in some countries was mainly denominated in foreign currency made the banks vulnerable to devaluation of the national currencies [3, 3].

All listed banking groups were strongly affected by the crisis and received multi-state aid from their countries [2, 20]. Banks have suffered huge losses in their investment, insurance departments, and in retail banking in some CEE countries. However, banks in CEE avoided bankruptcy and they remained well capitalized [18, 47]. Parent banks continued to finance their daughters in the CEE countries, and the amount of funding increased in relative and absolute values by providing direct loans and currency swaps [1, 22-23]. This was achieved thanks to the help from international organizations. Indeed, EBRD, European Investment Bank and the World Bank pledged to provide 25 billion euro to the financial companies operating in the region. In its turn, the IMF has provided loans to the most affected countries - Hungary, Latvia, Romania and Ukraine [3, 10], which also helped to stabilize the situation.

Currently the banking groups in the region are increasing their efficiency and optimizing their business operations. They reduce the number of branches and optimize the number of employees. Raiffeisen is downsizing and closes offices in Romania, Bulgaria, Ukraine and Russia. Due to the crisis Erste has postponed plans to expand business in Ukraine and has announced plans to cut 15% of workers in the region [20, 8]. Unicredit cut about 5.9 thousand employees in Ukraine, Kazakhstan and Poland in the first quarter of 2008 [7, 8]. OTP Bank in 2009 cut branches in the countries with the largest losses: 45 divisions in Serbia, 23 divisions in Ukraine and 12 departments in Slovakia [11]. In some CEE banks shrink lending activity and introduce more tight loan conditions. This happens due to the high share of non-performing loans. Thus, the Austrian National Bank expects that one-fifth of all loans issued by the departments of the Austrian banks in CEE will be written off. As for the second quarter of 2009 Raiffeisen had 20% of problem loans in Romania and 18.2% as of June 2009 in Ukraine [20, 10].

Because of the crisis regional expansion through acquisition of expensive large banks is no longer the best way to develop business in CEE. At least, not in the short to medium term [20, 7]. Inside the region, the banking groups are increasing investments into the units that have proved best throughout the crisis, and are careful with the units in the countries most affected by the crisis.

Raiffeisen suffered great losses in Ukraine and that is why, despite the fact that the bank intends to maintain its position in the country, the group at the end of 2009 did not plan to substantially cut investment to the country even considering the unstable economic and political situation. Moreover, in some other countries of the region Raiffeisen makes selective opening of the new offices to meet the new business opportunities arisen. Erste said that it increased investment into less risky countries to the new EU members, such as Slovakia and the Czech Republic, was reducing the business in non-EU countries with high potential but high risk, such as Ukraine and Serbia [20, 9]. KBC is most radical in their optimizing plans and claims to focus on their core products and markets in the banking, insurance and sale units in Serbia and Russia [10, 9]. Unicredit cut funding of units in Russia, Kazakhstan and Ukraine, because of lower demand for loans in these countries. On the other hand the group's units in Poland and the Czech Republic have proved being sustainable [7, 20]. SocGen says that it will continue development of retail banking services in the region, in particularly in the promising countries like Russia, Romania and the Czech Republic [14, 9].

To conclude, this article identifies the banks with strategic interest in CEE and the banks that are here above all to diversify their business. However, regardless of the role of CEE region in the strategies of the EU banking groups, most of the banks want to maintain and develop their business in CEE, despite of the losses caused by the crisis. Even more, if the conditions in the EU improve and CEE economy is stable, a new wave of bank consolidation involving CEE might take place to use the new opportunities the crisis unleashed.

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ТИПОЛОГІЯ МІЖНАРОДНОЇ ТОРГІВЛІ ПОСЛУГАМИ НА СУЧАСНОМУ ЕТАПІ

In this article author analyzes the theoretical approaches of researches of services in national and international economic systems. Services becomes the main factors in grows of productivities, especially in conditions of increasing the role of telecommunications and computer services. The services accumulate 75 % GDP in developed countries and 70% of employment.

Різні характеристики товарів і послуг впливають також на способи, якими здійснюються міжнародні операції. Якщо міжнародні операції з товарами передбачають їхнє фізичне переміщення з однієї країни до іншої, тільки деякі види традиційних операцій з послугами пов'язані з рухом через кордони. Прикладами транскордонних операцій можуть бути послуги, які передаються через засоби телекомунікації (наприклад переказ грошей через банки), або послуги, втілені в товари (технічний звіт консультанта або програмне забезпечення на дискеті).

Однак для більшості операцій у сфері послуг час і місце споживання не можна відокремити, а це потребує наближення постачальника послуг до споживача. Це можна забезпечити через комерційну присутність у країні–імпортері або тимчасовий переїзд фізичних осіб. Характер деяких операцій із послугамипередбачає переїзд споживача до країни, в якій послуга надається (наприклад виїзд студентів на навчання за кордон).

В даній статті автор розглядає якісні характеристики послуг, аналізує питання сучасної класифікації послуг, сучасні тенденції розвитку міжнародної торгівлі послугами, роль сектору послуг в економічному розвитку країни.

Аналіз міжнародної торгівлі послугами як окремого напрямку господарської діяльності проводиться сучасними економічними школами та формує базу основних категорій цього сегменту світового ринку. Дослідженню структурних основ, характеристик категорій торгівлі послугами та впливу міжнародної торгівлі послугами на розвиток країни присвячені роботи сучасних економічних науковців Р.Стерн, Б. Хокман, А.Маттоо, П.Сове, П.Брага, П. Брентон, Ф. ДиМауро, Ж. Николетти, П. Конвай, Р. Монтизаан, Ф. Кох.

З метою урахування різних характеристик послуг Р. Стерн та Б. Хоекман запропонували класифікацію послуг, подібну до класифікації Г. Семпсона і Р. Снейпа [1, с. 41; 2, с. 173]. Вони розрізняють чотири типи торгівлі послугами:

• відокремлені послуги, які не потребують руху виробників та споживачів (наприклад, послуги, утілені в товарах: книги, диски і т.п. або послуги, якими торгують в електронний спосіб);

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- переміщення виробника до споживача (певні види консультування);
- переміщення споживача до виробника (наприклад туризм);
- невідокремлені послуги, де постачальники та споживачі послуг переміщуються до третьої країни (наприклад, надання послуг із проведення світових спортивних чемпіонатів).

Ця класифікація допомагає прояснити механізм торгівлі послугами, але не дає визначення самої категорії "послуга".

Р. Стерн та Б. Хоекман визначають міжнародну торгівлю послугами як трансакцію, за якої внутрішні фактори отримують дохід від нерезидентів замість наданих послуг [1, с. 42]. Перевагою цього визначення є те, що не підкреслюється країна виробництва послуги. Але з урахуванням того, що одна з характеристик багатьох послуг, особливо неторговельних, потребує фізичної присутності і постачальника, і споживача послуги, визначення торгівлі послугами в рамках ГАТС базується на фактичному місцерозташування виробника і споживача послуги.

У ГАТС торгівля послугами визначається як їх надання:

- з території одного Члена [СОТ] на територію будь-якого іншого Члена;
- на території одного Члена споживачеві послуги будь-якого іншого Члена;
- постачальником послуг одного Члена за допомогою комерційної присутності на території будь-якого іншого Члена;
- постачальником послуг одного Члена через присутність фізичних осіб Члена на території будь-якого іншого Члена"[3, с. 26].

Ці способи зазвичай позначаються як спосіб 1 – транскордонне надання послуг; спосіб 2 – споживання за кордоном; спосіб 3 – комерційна присутність і спосіб 4 – присутність фізичних осіб.

Спосіб 1 (транскордонне надання послуг) має місце тоді, коли споживач залишається на території своєї країни, при цьому послуга перетинає національні кордони, а постачальник перебуває в іншій країні. Надання послуги може здійснюватися, наприклад, телефоном, факсом, Інтернетом, за допомогою інших комп'ютерних засобів зв'язку, телебачення або шляхом відправлення документів, дисків, магнітних стрічок і т.д. поштою або кур'єром. Це схоже на традиційний спосіб торгівлі товарами, коли споживач і постачальник залишаються на території своїх країн. Насправді послуги з транспортування вантажів, які забезпечують торгівлю товарами, самі є прикладами транскордонного надання послуг.

Спосіб 2 (споживання за кордоном) використовується у тому випадку, коли споживач виїжджає за межі території своєї країни і споживає послуги в іншій країні. Типовим прикладом є туристична діяльність, відвідання зарубіжних музеїв, театрів тощо. Інші приклади – медичне обслуговування нерезидентів, вивчення іноземних мов за кордоном, а також ремонт суден, коли за кордон переміщується або там знаходиться тільки майно споживача.

Спосіб 3 (комерційна присутність) відображає ситуацію, коли для надання послуг у більшості випадків необхідно встановити комерційну присутність за кордоном, аби забезпечити тісний контакт зі споживачем на території його країни на різних етапах виробництва і надання послуг, а також після їх надання. Згідно з правилами ГАТС, надання послуг через комерційну присутність передбачає виробництво, розповсюдження, маркетинг, продаж і доставку. Прикладами є медичні послуги, що надаються лікарнею в іноземному володінні, навчання в школі іноземного володіння, а також послуги місцевих відділень або філій іноземних банків.

Спосіб 4 (присутність фізичних осіб) – надання послуги на території країни споживача іноземної фізичною особою, яка діє самостійно або за дорученням свого працедавця. Таким чином, цей спосіб охоплює дві категорії фізичних осіб: самостійно

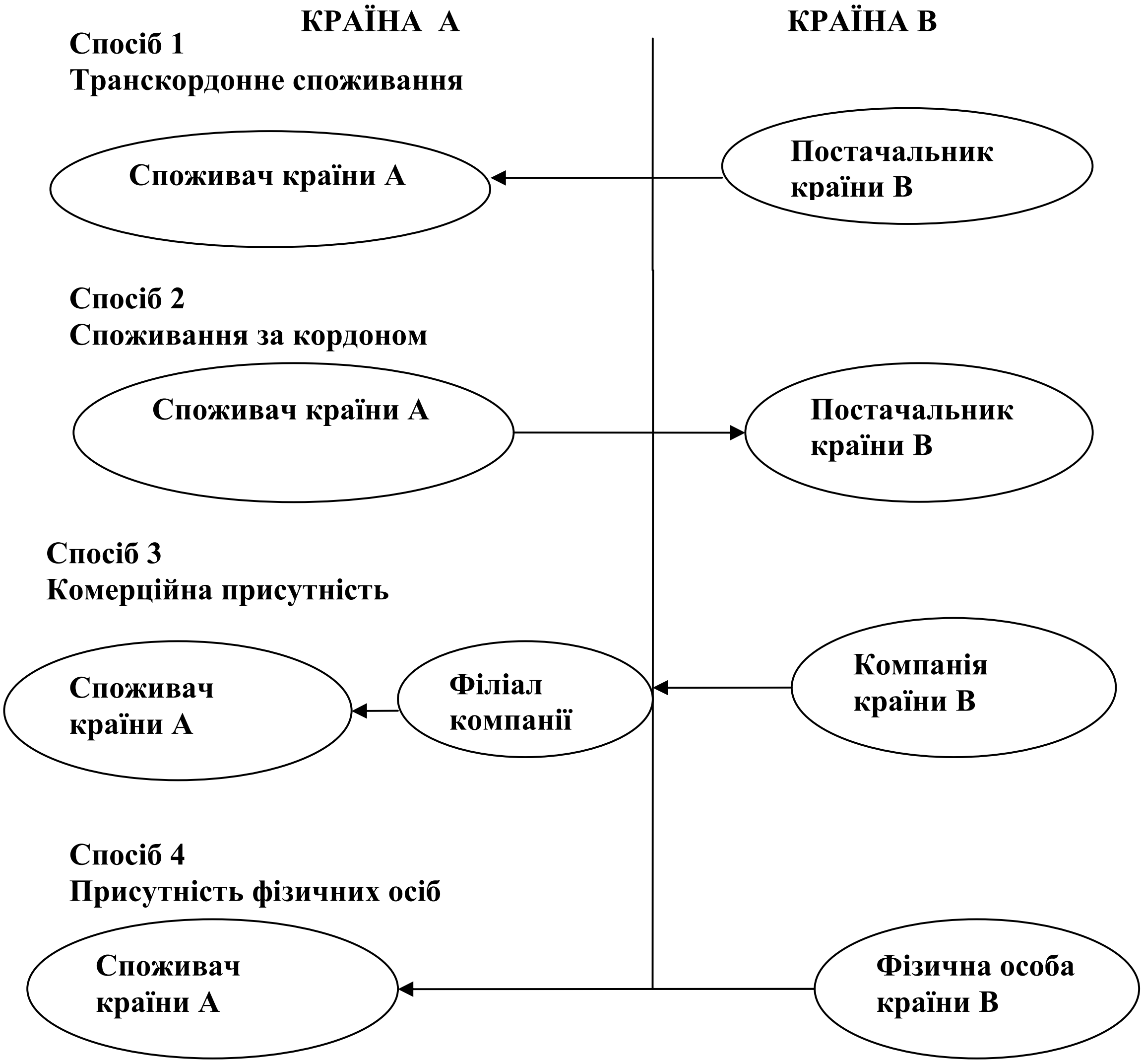

Рис. 1. Способи міжнародної торгівлі послугами згідно з ГАТС.
Джерело: Складено автором на базі: [3]

зайняті працівники і наймані робітники.

Цей спосіб також поширюється на дві сфери: 1) торгівля послугами в сенсі ВОР5, – наприклад, послуги аудитора з перевірки фінансової діяльності, який направлений іноземною фірмою, або надання послуг розважального характеру самостійно зайнятим професійним іноземним артистом, який тимчасово приїхав на гастролі в іншу країну; 2)зайнятість, тобто вкладення праці у процес виробництва. Присутність фізичних осіб передбачає тільки непостійну зайнятість у країні споживача . Разом із тим, ГАТС не містить визначення поняття "непостійна зайнятість". Згідно із зобов'язаннями країн, тимчасовий статус зазвичай охоплює період від двох до п'яти років і може варіюватися в залежності від категорії фізичних осіб.

Таким чином, із зазначенням комерційної присутності та присутності фізичних осіб ГАТС зробила крок уперед у порівнянні з ГАТТ, суттєво обмеженої рамками транскордонного постачання товарів [4,с.304].

Перелічені способи торгівлі послугами розрізняються за двома основними критеріями:

• походження постачальника і споживача послуги; під походженням зазвичай розуміється громадянство (якщо йдеться про фізичну особу) або місце інкорпорації (реєстрації) компанії;

• місцезнаходження постачальника і споживача послуги в момент надання послуги і характер цієї територіальної присутності (постійна або тимчасова).

Як правило, використовуючи ці критерії, можна легко визначити, до якого способу торгівлі послугами належить конкретний вид діяльності. Проте в ряді випадків виникають деякі труднощі. Для більшості секторів, наприклад охорони здоров'я, освіти, туризму або аудіовізуальних послуг, розмежувати два способи надання послуг відносно легко: якщо споживач перебуває у своїй країні і споживає послугу, що надається йому постачальником з-за кордону, то це перший спосіб постачання; якщо ж споживач (або його власність — як у випадку з ремонтом судна) вирушає за рубіж і споживає послугу там, то це другий спосіб постачання. Проте для деяких видів послуг, наприклад фінансових, на основі вказаних критеріїв не можна провести межу між першим і другим способом, оскільки споживання за кордоном у цьому випадку не вимагає фізичної присутності ні споживача, ні його власності. Наприклад, позика фінансових коштів у закордонного банку не обов'язково потребує фізичної присутності в ньому позичальника або його власності; кредитні ресурси можуть бути надані і спожиті за кордоном або в країні споживача, або в третій країні. Все залежить від критерію, який застосовується при визначенні місця надання послуги. У цьому плані можливі такі ситуації:

1. Якщо місцем надання послуги вважається місце, де фінансові кошти були надані, то ця послуга надана першим способом («транскордонне постачання»), якщо кошти надаються в країні споживача, і другим способом («споживання за кордоном»), якщо кошти надаються в країні постачальника.

2. Якщо місцем надання послуги вважається місце, де фінансові кошти були “придбані”, тоді, незважаючи на те, що кошти були надані в країні споживача, послуга, на відміну від попереднього прикладу, може розглядатися як надана другим способом (наприклад, коли кредитна угода підписана або відсотки сплачені в країні постачальника).

3. Якщо місцем надання послуги вважається місце погашення кредиту, то визначити спосіб надання послуги ще важче, а іноді і взагалі неможливо.

Важлива особливість підходу ГАТС полягає в тому, що всі послуги в основному ідентифікуються як торговельні. Наприклад, перукарські послуги, які традиційно постачаються на внутрішній ринок, можуть надаватися способом 2: споживання за кордоном. Також імовірно, що така торгівля може відбуватись і через транскордонне надання, якщо є вільний доступ до отримання послуг для громадян іншої країни (наприклад, багато жителів Голландії здійснюють закупівлі у Бельгії, і навпаки).

У 1991 р., після проведення консультацій з країнами-членами Секретаріат ГАТТ підготував записку під назвою "Перелік класифікованих послуг за секторами (GNS/W/120)". У цьому переліку вказуються сектори і підсектори у відповідності з національними нормативами, що регулюють сферу послуг, аби країни могли брати на себе і обговорювати конкретні зобов'язання. Тому GNS/W/120 слід розглядати як робочий документ для ведення переговорів, а не як статистичну класифікацію.

Отже, ГАТС класифікує послуги на 12 секторів:

1. бізнес-послуги (в тому числі професійні та комп'ютерні);
2. послугизв'язку;
3. будівельнітаінженерніпослуги;

4. послугидистриб'юторів;
5. освітніпослуги;
6. екологічніпослуги;
7. фінансові послуги (страхування та банківські);
8. медичніпослуги;
9. послуги в галузі туризму та подорожей;
10. рекреаційні, культурні та спортивні послуги;
11. транспортніпослуги;
12. іншіпослуги.

Ці сектори мають 155 підсекторів. Даний перелік із часом може зазнати змін, і учасники переговорів з торгівлі послугами можуть використовувати в майбутньому інші класифікації, як це відбулося у випадку прийняття угод з лібералізації телекомунікаційних і фінансових послуг.

Світовий Банк використовує класифікацію послуг, яка має на меті пов'язати їх з рухом факторів виробництва:

- факторні послуги (factor services) – платежі, які виникають у зв'язку з міжнародним рухом факторів виробництва, передусім із капіталом та робочою силою (доходи чи інвестиції, роялті та ліцензійні платежі, заробітна плата, сплачена нерезидентам);
- нефакторні послуги (non-factor services) – послуги, не пов'язані з рухом факторів виробництва (транспорт, туризм, інші нефінансові послуги).

Ця класифікація особливо важлива для обговорення проблем регулювання міжнародної торгівлі послугами в рамках СОТ, яке концентрується переважно на нефакторних послугах.

Дуже часто рух послуг від продавця до покупця відбувається паралельно з рухом товарів чи інвестицій. Тому в залежності від способів доставки послуг споживачеві вони також можуть бути класифіковані на:

- послуги, пов'язані з інвестиціями (investment-related services), – банківські, готельні і професійні послуги;
- послуги, пов'язані з торгівлею (trade-related services), – транспорт, страхування;
- послуги, пов'язані одночасно з інвестиціями й торгівлею (trade-and-investment related services), – зв'язок, будівництво, комп'ютерні та інформаційні, рекреаційні й культурні послуги.

З метою статистичного виміру світової торгівлі послугами МВФ використовує BOP5, в якому міститься опис концептуальної основи, яка визначає статистику ПБ. У ПБ на систематичній основі наводяться сумарні дані про операції між даною країною і рештою світу за визначений період часу. До таких операцій, що здійснюються головним чином між резидентами і нерезидентами, належать операції з товарами,послугами і потоки доходів; операції, пов'язані з фінансовими вимогами і зобов'язаннями даної країни відносно решти світу; операції, що класифікуються як трансфери (наприклад дарування).

Саме поняття операції визначається як економічний потік, що відображає створення, перетворення, обмін, передання або ліквідацію економічної вартості та передбачає перехід права власності на товари і/або фінансові активи, надання послуг, праці або капіталу.

З метою вдосконалення статистичних даних стосовно торгівлі послугами в 2004 р. ООН разом з ЄК, МВФ, ОЕСР, ЮНКТАД та СОТ розробили Рекомендації зі статистики міжнародної торгівлі послугами,що є першим важливим кроком у задоволенні попиту державних органів, ділових кіл і аналітиків на докладнішу і зведену на міжнародному рівні статистику такої торгівлі. Мета цього документу – забезпечити узгоджену концептуальну основу, в рамках якої країни можуть структурувати і поширювати зібрані ними статистичні дані міжнародної торгівлі послугами. Рекомендується цілий ряд основних і додаткових позицій, які з часом мають бути введені для вдосконалення статистичних даних. Аби країнам було легше прийняти Рекомендації за основу, вони побудовані на чинних стандартах складання статистики, зокрема на BOP5 і СНР 1993 р.

Таблиця 2

	ГАТС, GNS/W/120	BOP5
1	Комерційні послуги	Інші комерційні послуги
		Ліцензійні винагороди
		Комп'ютерні та інформаційні послуги
2	Послуги зв'язку	Комунікаційні послуги
3	Будівельні та інженерні послуги	Будівельні послуги
4	Послуги дистриб'юторів	
5	Освітні послуги	
6	Екологічні послуги	
7	Фінансові послуги	Фінансові послуги
		Страхові послуги
8	Медичні послуги	
9	Послуги в галузі туризму та подорожей	Туристичні послуги
10	Рекреаційні, культурні та спортивні послуги	Рекреаційні, культурні та спортивні послуги
11	Транспортні послуги	Транспортні
12	Інші послуги	
		Державні послуги

Класифікація послуг за ГАТС та BOP5

Джерело: Складено автором на базі: [3, с.27-28].

Згідно з В. Кейвом, BOP5 охоплює майже всю торгівлю способами 1 і 2, значний обсяг способом 4, але незначну кількість трансакцій способом 3 [5]. Він також аргументує, що для всебічного охоплення торгівлі через комерційну присутність потрібно враховувати постачання послуг через іноземні філії. Тож у Рекомендації зі статистики було запропоновано ввести вартість послуг, що торгуються через іноземні філії – ТПЗФ. Статистика ТПЗФ дозволяє кількісно оцінити комерційну присутність закордонних постачальників послуг у формі філій на зарубіжних ринках, і тому вона тісно пов'язана із статистикою ПІІ. Статистика ТПЗФ охоплює цілий ряд змінних, які можуть включати деякі або всі з таких показників: продаж (оборот) і/або випуск продукції, зайнятість, додана вартість, експорт та імпорт товарів і послуг, кількість підприємств, активи, чиста вартість капіталу, прибуток і дорівняні до нього доходи, валове накопичення основного капіталу, прибуткові податки, витрати на НДДКР, оплата праці робітників, а також інші аспекти.

Загальна класифікація торгівлі послугами,запропонована ОЕСР та Євростатом, тісно пов'язана з BOP5. Вона може бути охарактеризована як дезагрегована класифікація BOP5 для трансакцій у торгівлі послугами, що відображаються ПБ. Класифікація охоплює всі операції з послугами між резидентами і нерезидентами. Основні її категорії збігаються з 11 основними категоріями стандартних компонентів BOP5. Одночасно ця класифікація відповідає вимогам МВФ та частково пов'язана із Класифікацією основних продуктів.

Загальна класифікація є першою спробою врахування положень ГАТС, особливо стосовно фінансових і телекомунікаційних послуг, вона також відбиває статистичні наслідки створення в рамках Європейського Співтовариства єдиного ринку послуг, що спричинило величезну кількість різноманітних директив, що потребували узгодження та уніфікації.

У 2002 р. Г. Карсенті використав дані BOP5 для аналізу значущості способів торгівлі послугами в міжнародній торгівлі [6]. Згідно з його розрахунками, найбільший обсяг трансакцій здійснювався через комерційну присутність (спосіб 3) – приблизно на 2 трлн дол. Спосіб 1, більш наближений до експорту комерційних послуг (за винятком туристичних), дав суму в 1 трлн дол., спосіб 2 – 500 млрд дол., а спосіб 4 – приблизно 50 млрд дол.

Слід зазначити, що міжнародні сервісні трансакції більш складні для аналізу, оскільки необхідно брати до уваги основні способі торгівлі послугами та їхні взаємовідношення (додаткові або субститути). Структура зовнішньої торгівлі послугами залежатиме від витрат на використання альтернативних способів. Наприклад, технологічні або регуляторні зміни, можливо, приводять до переорієнтації від торгівлі готовими товарами, які втілюють неторговельні послуги, до торгівлі проміжними послугами. Існує небагато емпіричних робіт щодо визначення детермінант структури зовнішньої торгівлі послугами і використання альтернативних способів такої торгівлі. Р. Лангаммер розраховував індекс виявлених порівняльних переваг (RCA, або індекс Баласси) при торгівлі послугами способами 1 і 3 для ЄС, Японії та США [7]. Індекс Баласси – показник, що характеризує співвідношення частки експорту певного товару в загальному обсязі експорту країни і частки експорту цього товару в загальному світовому експорті; відносна перевага існує, якщо значення коефіцієнта більше одиниці, тобто якщо частка товару в експорті країни більша, ніж його частка у світовому експорті. Збільшення цієї частки і зростання індексу вказують на те, що країна розширює використання своєї відносної переваги в міжнародній торгівлі. Транскордонна торгівля (спосіб 1) відображає відносну забезпеченість факторами виробництва, тоді як комерційна присутність (спосіб 3) детермінується такою характеристикою послуги, як близькість виробника до споживача, національним регулюванням та іншими факторами, які визначають привабливість країни для ПІІ. Р. Лангаммер показав, що індекс RCA для торгівлі послугами США способами 1 та 3 є подібним лише в декількох секторах послуг, та й не повністю. Так, для телекомунікаційних послуг він мав позитивне значення щодо торгівлі через комерційну присутність, але негативне – у випадку транскордонної торгівлі.

Через відсутність статистичних даних стосовно торгівлі послугами всіма способами важко зробити конкретні підрахунки. Згідно з даними СОТ, найбільші обсяги міжнародної торгівлі послугами здійснюються способами 1 і 3 (35 та 50% відповідно), а на способи 2 й 4 припадає лише 10–15 та 1–2% відповідно [8]. На нашу думку, загальна кількість послуг, що реалізуються останніми двома способами, ймовірно, значно вища, оскільки новітні досягнення комунікаційних технологій та розвиток електронної торгівлі дають чимдалі більше можливостей для компаній надавати послуги в режимі транскордонного переміщення, не створюючи комерційної присутності у країні-імпортері.

Взагалі статистика міжнародного обміну послугами є однією з найскладніших ділянок методології статистичного обліку, яка містить, на нашу думку, принаймні дві основні проблеми.

Перша проблема, що стоїть перед статистичними органами, як міжнародними, так і національними, – це подальший розвиток Класифікатора послуг. На сьогоднішній день

Класифікатор ГАТС, побудований на основі СНС, і національні класифікатори послуг країн–членів СОТ не завжди узгоджені між собою. Очевидно, що в рамках СОТ всі країни поступово перейдуть на Класифікатор ГАТС. Але поки що вкрай важко отримати реальну та достовірну статистичну інформацію з торгівлі послугами.

Друга проблема – це повне і чітке відображення у статистиці торгівлі послугами всіх чотирьох способів постачання послуг. Як було підкреслено вище, статистика торгівлі послугами доволі достатньою мірою враховує тільки транскордонну торгівлю, тоді як інші способи, особливо комерційна присутність та присутність фізичних осіб, часто не враховуються. Відомо, що на торгівлю послугами (всіма способами) філій американських компаній припадає більше 80% транскордонної торгівлі материнських компаній, однак це проходить повз регулярної статистики.

Більш складним є питання обліку послуг, що надаються через рух фізичних осіб. Справа в тому, що торгівля способом 4 передбачає рух як самостійно зайнятих, так і найманих працівників, і часто значна частина таких послуг зараховується до інших категорій послуг.

Міжнародні сервісні трансакції більш складні для аналізу, оскільки необхідно брати до уваги основні способи торгівлі послугами та їхні співвідношення (доповнення або субституції). Структура зовнішньої торгівлі послугами залежить від здійсненності або вартості використання альтернативних способів. На відміну від міжнародних трансакцій із товарами, які передбачають фізичний перетин кордонів країни, послуги на міжнародному рівні надаються із застосуванням одного або комбінації чотирьох способів, зокрема: 1) надання послуг через кордон; 2) переміщення споживачів до країни експортера; 3) створення комерційної присутності у країні, де мають надаватися послуги; 4) тимчасовий переїзд фізичних осіб до іншої країни для надання там послуг.

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INTERNATIONAL ECONOMICS RESEARCH: STRUCTURAL CHANGES IN THE PAST 50 YEARS

International economic relations are subject to evolution and structural changes. Economic research has been reflecting these changes, thus popularity of topics of research works is also subject to evolution. Popularity of certain topics among researchers has constantly been growing or decreasing. We may also observe other types of dynamics: decreasing popularity followed by its increase or vice versa, no obvious trend or frequent fluctuations. For example, global economic instability may be one of the factors. In particular there was a historical maximum in the ratio of frequency of words denoting crisis to frequency of words denoting development in 2010.

Trends in economic research have been analyzed in a number of studies. For example, Cardoso A. R., Guimarres P., Zimmermann K. F. (2010) consider trends in regions or countries of origin of research articles on economic issues. Lopes I., Silva J. A., Rebelo E., Castela G. (2010) analyze trends in popularity of research directions in the field of tourism. Nascimento D., Teixeira A.A.C. (2010) consider trends in research topics and types of research devoted to the economics of innovation. Dan M.-C., Vasilache S. (2010) analyze frequency of topics related to lifestyle of people (including economic aspects of the issue).

In our research we aim to determine trends in relative popularity of research topics, particularly in the field of international economics. We use quantitative content analysis methods by means of calculating relative frequencies of words in titles of working papers and articles. Since the titles of the papers and articles where obtained from the RePEc database for economic research (www.repec.org), we have analyses mainly western research works published during 1960-2010. Only articles or working papers with word international in their titles or abstracts were considered, to ensure that these works at least indirectly related to international economics.

Frequencies of each word in titles of the entire set of research works were calculated by using software (Wordstat). In our analysis we considered only words which occurred at least 50 times. Those words which are meaningless for the aim of our analysis were excluded (e.g., prepositions, articles, or such words as economic which express little information about particular field of research). We summed frequencies of words with similar meaning or different grammar forms of the same words. Since facilities do not allow us to fully consider this effect, we either tried to consider it while interpreting results or excluded such words from analysis when the distortion effect was too large. Also precision of results could have been influenced by using words in unusual meaning.

The minimum period for comparing frequencies is 1 year (for most recent research works,

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which occur more frequently in the database unlike earlier works) or longer periods (for earlier works) to smooth the difference in number of works in the compared periods. Owing to specifics of the search engine some works were counted twice in adjacent periods (e.g., works in 1985 were counted both in periods 1980-85 and 1985-1990).

Further in the analysis we used relative frequencies of words (with the respect to the total number of words in a period considered) in per mile rates (‰). We may assume that the distortion effect of meaningless words was insignificant, because fluctuation of total relative frequencies of all meaningful words occurring frequently enough was small in various periods. But we should consider such effect in case we take the word international for a meaningless word. E.g., frequencies in 1960-80 are smaller by 6% than in 1991-96 owing to existence of meaningless words.

Since words may differ in total absolute frequencies during the entire period 1960-2010, we applied longer periods for comparison in case such frequencies were small enough. E.g. if the total absolute frequency of a word is at least 300, we may find an apparent trend only if we use periods no shorter than 1960-80, 1980-90, 1991-96, 1997-2000, 2001-03, 2004-06, 2007-08, 2009-10. If the total absolute frequency of a word is at least 1000 we may use shorter periods. If the total absolute frequency of a word is about 150 we should use smaller number of longer periods. If the total absolute frequency of a word is 50 it is difficult to find an apparent trend for changes in its popularity, but we used such words for analysis of trends in popularity of word groups instead of single words.

Whenever it was necessary to combine periods, relative frequencies for larger combined periods were calculated as averages of relative frequencies of each period to be combined (regardless of number of years in each period). E.g. after combining periods 1960-80 (with the relative frequency of a word 5 ‰) and 1980-90 (9‰) the average is 7‰. This method considers the fact that later periods contain more cases (research works) and thus we should apply higher weight for them.

We used chi-square test for significance in differences in frequencies for all the periods considered. But we did not used the test automatically for interpreting results, because e.g. chi-square test may provide different results about significance of a fluctuation trend when different periods for comparison are used.

In our research trends in popularity of both individual words and word groups were analyzed. 3 levels of groups were used. Words were distributed among the groups considering closer semantic links. The following groups, subgroups, and subsubgroups were used:

- methodology - i.e. the group of words denoting specifics of methods used for research:
  - empirics;
  - future;
  - causality;
  - author method;
- geography:
  - international level (internationalization, integration);
  - local level (national, subnational);
- international trade:
  - trends in international trade;
  - international trade regulation;
- international finance:
  - capital mobility (equity investment, lending);
  - monetary (monetary policy, currency);

- macro-regulation:
  - role of state (public sector, private sector);
  - regulation;
  - government budget;
  - institutions;
  - law;
  - politics (conflicts);
- effect:
  - development;
  - efficiency;
  - danger (balancing, risk, crisis);
- market:
  - market structure (supply, demand);
  - competition;
- micro-level:
  - ownership;
  - firms;
  - management;
  - households;
- human:
  - labor;
  - demographics;
  - income distribution;
  - social issues (education);
- environment;
- economic sectors:
  - agriculture;
  - energy sector;
  - industry;
  - services;
  - real estate;
  - innovations;
- countries:
  - Asia;
  - advanced economies (Western Europe);
- Central and Easter Europe;
- developing countries (Latin America, developing Asia, Africa).

Some words may not belong to any subgroup or subsubgroup, e.g. group methodology includes the word model (including other forms: models and modelling) and several other independent words. Certain words may belong to two groups, e.g. prices.

Groups and subgroups	1960-80	1980-90	1991-96	1997-2000	2001-03	2004-06	2007-08	2009-10
Methodology	26.61	34.66	31.88	33.42	33.47	35.66	33.95	35.06
- empirics	2.24	5.89	7.21	8.95	8.18	9.07	9.36	9.06
- future	6.13	5.88	4.72	5.03	5.30	5.53	5.50	6.27
- causality	7.81	8.50	8.36	8.86	9.93	11.89	11.41	11.49

Groups and subgroups	1960-80	1980-90	1991-96	1997-2000	2001-03	2004-06	2007-08	2009-10
Geography	123.82	97.88	88.88	76.40	70.38	65.19	63.30	60.40
- international level	115.75	91.61	80.65	68.28	61.09	56.87	55.01	52.80
- international level (excl. *international*)	10.83	13.39	20.16	21.24	21.90	22.95	22.26	21.80
- local level	7.89	6.01	7.56	7.07	7.96	7.28	7.47	6.77
International trade	23.10	21.17	22.99	19.45	17.17	16.35	17.27	15.13
- trends	21.91	20.72	21.49	17.78	15.91	14.71	16.29	14.39
- regulation	1.19	0.46	1.50	1.67	1.25	1.65	0.98	0.74
International finance	61.66	62.20	56.81	61.29	54.01	51.54	47.92	48.56
- capital mobility	24.62	29.28	32.30	32.49	28.18	26.82	23.91	22.57
- monetary	30.86	28.42	19.34	21.20	17.65	17.46	16.16	15.27
Macro-regulation	31.87	42.15	45.14	42.88	43.97	41.28	39.30	36.36
- role of state	2.82	3.65	4.76	5.33	6.27	6.18	5.23	5.51
- regulation	10.44	18.34	19.36	18.30	17.35	16.96	15.89	14.48
- government budget	4.86	11.23	10.99	8.96	7.96	6.88	6.94	6.35
- institutions	6.03	2.68	4.30	4.67	5.72	4.78	4.58	3.60
- law	1.94	2.10	1.26	1.90	2.23	2.86	2.76	2.87
- politics	5.78	4.13	4.46	3.73	4.45	3.61	3.91	3.55
Effect	28.86	34.79	43.14	43.85	42.93	43.56	43.53	47.24
- development	9.25	6.99	10.11	10.68	9.82	9.88	9.37	9.30
- efficiency	10.95	14.05	18.55	18.09	20.10	21.06	21.61	19.52
- danger	8.66	13.75	14.48	15.08	13.01	12.62	12.55	18.42
Market	21.19	23.62	26.59	23.36	23.89	22.00	23.42	21.78
- market structure	13.26	12.43	11.98	9.66	9.85	10.31	10.92	10.34
- competition	1.49	3.07	3.90	3.06	3.35	2.38	2.34	1.97
Micro-level	9.40	6.44	9.23	11.73	13.39	13.60	13.02	15.48
- ownership	0.37	0.15	1.01	1.12	1.49	1.40	1.02	1.10
- firms	6.46	3.60	4.56	5.66	6.80	6.67	6.52	8.67
- management	2.45	2.36	2.64	4.22	4.40	4.63	4.43	4.60
- households	0.13	0.33	1.02	0.73	0.69	0.90	1.06	1.11
Human	11.34	15.10	19.32	19.80	20.12	22.36	22.07	22.12
- labor	3.80	4.42	6.04	6.43	5.97	5.70	5.60	5.03
- demographics	0.62	2.23	2.53	2.25	2.15	3.39	2.95	3.49
- income distribution	1.20	1.65	3.07	3.26	4.32	3.82	3.94	2.87
- social issues	5.02	6.58	6.78	7.04	6.81	8.33	8.39	9.72
Environment	2.11	2.71	7.70	8.73	9.52	7.97	9.13	10.15
Economic sectors	19.30	27.01	23.20	23.74	21.09	22.14	22.87	23.34
- agriculture	5.24	7.68	6.00	5.09	6.02	6.09	6.38	5.23
- energy sector	3.70	7.95	2.38	1.68	1.76	1.97	3.04	3.73
- industry	4.55	5.30	6.81	6.33	5.83	5.12	5.12	4.29
- services	1.35	2.79	3.08	3.55	3.82	3.75	3.59	4.25
- real estate	0.34	0.97	0.86	1.83	0.97	1.09	1.32	1.19
- innovations	6.30	6.73	7.68	8.47	7.64	8.37	7.83	8.04
Countries	12.99	13.55	21.10	25.30	27.73	27.02	27.70	28.37
- advanced economies	7.01	6.57	10.67	12.67	11.36	10.05	8.55	9.50
- Central and Eastern Europe	0.88	0.86	2.01	2.51	3.03	2.32	2.38	2.12
- developing countries	3.44	4.81	7.67	7.76	11.81	12.63	14.25	14.49

Trends in popularity of groups and subgroups are summarized in Table 1.

Table 1.
Dynamics of relative frequencies of word groups and subgroups in titles of research papers in the field of international economics in different years, ‰.

Group methodology. There is no obvious trend regarding total relative frequency of all the words of this group, but that is not the case for its components. Research dealing with theory shows a downward trend (its relative frequency decreased three times from 1960-80 to 2007-10). We also observed a relatively downward trend for the word model (-s, -ling), and macroeconomic. Researchers started active use of information since the 1980s, but its maximum was reached in 1997-2003.

Subgroup empirics had showed an upward trend till the middle of the 1990s mainly due to the word evidence, but later its relative frequency stabilized. Correlation was mainly used in the 1990s. Other components of the subgroup (empirical, econometric) did not show any explicit trend. If we compare relative frequencies of theory and subgroup empirics, the latter has been definitely growing in popularity in comparison with theory.

There was a maximum for the subgroup future in 1975-80, mainly due to the word new, while forecast (-ing) showed downward dynamics. The subgroup causality had an upward trend due to the word effect (-s, impact, influence, consequences), while another component of the subgroup factor (determinant) showed a downward trend, interrupted by a local maximum in 2004-05.

In the subgroup author method different trends for its components and small absolute frequency do not allow us to treat downward trend in case of Ricardian and upward trend in case of Keynesian as reliable.

Group geography. There was a general downward trend for this group caused by large weight of the key word international. If we excluded this word, the relative frequency of the group would abruptly grow since 1990 (i.e. in 1991-2010 in comparison with 1960-90). The word geography (-ic) and spatial themselves reached maximum of their relative popularity at the beginning of the first decade of XXI century.

Subsubgroup internationalization (excluding the word international) has an upward trend. The same is true for its components: globalization (with the maximum in 2001-08), global, and outsourcing. The relative frequency of foreign fluctuated with the maximum in 1991. Free abruptly grew in popularity in 1991-96, but later it was a little less popular. The frequency of spillovers significantly grew in 1991. Mobility has become less popular since 2001.

The frequency of subsubgoup integration decreased twice in 1975-85, but later it grew in popularity three times. After the maximum was reached in 1985-93 there were two local maximums in 1999 and 2001, which apparently was caused by establishment of the EU and the euro area. It is interesting to note the sequence of maximums of various words of the subsubgroup: for coordination in 1980-90, convergence in 1991-96, cooperation in 1991-2000, harmonization in 1991-2003, integration in 2001-04, and accession in 2001-06.

There were several maximums in the subgroup local level, in particular in 1960-70, 1993, and 2002. Regional (both on the supra- and subnational level) had a minimum in 1980-90 and a maximum in 2001-03. Subsubgroup national showed a general downward trend, while subsubgroup subnational – an upward trend before 2001-10.

Group international trade. There is a downward trend for this group in general, and the subgroup trends in international trade (mainly owing to the word trade). But frequencies of export (-s, -ing) and trading had been growing till 2007-08.

There was a relative maximum for the subgroup international trade regulation in 1991-2006, mainly due to WTO and GATT. Tariff and dumping had a rather downward trend.

Group international finance. The group shows rather a downward trend. But finance (-ial) and aid had the opposite trend.

Subgroup capital mobility reached its maximum in 1991-2000. Flows had two maximums: in 1960-80 and 1997-2000. Capital showed downward trend interrupted by a local minimum at the beginning of the 1980s and a local maximum in 1994. Asset reached its maximum in 1980-2003. Payments showed downward trend.

Subsubgroup equity investment reached its maximum in 1997 (or 1991-2006 if we use longer periods in our analysis). But its component FDI showed an upward trend. Subsubgroup lending had a maximum in 1991 (1980-92). Banks had two more maximums: in 1999-2002 and 2010. Bonds had become much more popular since the 1990s.

There was a downward trend for the subgroup monetary and its subsubgroups: monetary policy and currency. The latter also had a local maximum in 2000. Exchange reached its maximum in 1985-90, intervention – in 1980-96, currency – in 1997-2000. Dollar was much more popular before 1980.

Group macro-regulation. There was a maximum for this group in 1985-90. It is interesting to note that subsubgroups public sector and private sector had maximums almost in the same period of time: 2001-06 and 2001-03.

Subgroup regulation reached a maximum in 1980-2000. Some of its components reached their maximums later: liberalization and standards in 1997-2003, reform (-ing) in 1997-2006, regulation in 2001-06. Tariffs had a downward trend, while governance – an upward trend.

Subgroup government budget reached its maximum in 1985-92. Tax (-s, -ation) was most popular in 1991-96. Subgroup institutions had maximums in 1960-70 and 2001-05. The latter was also the maximum for its components: institutions (-al), OECD, WTO, GATT, and IMF.

Subgroup law was most popular in 2004-10, but also had local maximums before. The word law was most popular in 1960-90, thus the trend for the subgroup was mainly determined by other words, such as legal and corruption. Subgroup politics and the word politics (-al) had a general downward trend, but popularity of the subsubgroup conflicts fluctuated.

Group effect. The group had an unstable upward trend. Subgroup development had a minimum in the 1980s. The word development had a maximum in the 1960s and a minimum in 1994. Growth was most popular in the 1990s, especially in 1997, while it was least popular before the 1990s, as well as in 2000-01 and 2008-10. There we also an insignificant downward trend for industrialization, upward trend for GDP and maximum for output in the 1990s.

Subgroup efficiency had an upward trend, mainly due to effect. There were maximums for productivity in 1996-97 and 2003-04, efficiency in 1999 and 2003, competitiveness and quality in 1991-96 and 2007-08, benefit in 2001-06, costs in 2001-03. Income had a rather downward trend with maximums in the 1960s and 1991. Insignificant maximums include the one for wealth and earnings in the 1990's, and safety in 2001-06.

Subgroup danger had maximums in 1991, 1998-99, and 2009-10. Its subsubgroup balancing reached maximums at the beginning of the 1970s and in the 1980s. Balance and equilibrium showed an upward trend, while asymmetry and imbalances – a downward trend. There were insignificant maximums for stability in the 1980s and 2007-10 and minimums for security in 1991-97 and 2001-03.

The popularity of subsubgroup risk had been growing till 1991 before it slightly decreased. The word risk showed maximums in 1991, 1994, 2001 and 2007-10. Volatility had not been popular until the middle of the 1980s, and after that it fluctuated. As for insignificant results, uncertainty showed a downward trend, while vulnerability – an upward trend, also there were maximums for hedging in the 1990s and hazard in 2001-06.

Subsubgroup crisis had not been much popular before the middle of the 1980s and reached maximums in 1998-99, 2002, and 2009-10, largely owing to the word crisis itself. Cycles (-ical) were most popular in the 1990s, shocks – since the end of the 1990s. There were also insignificant maximums for recession (depression) in the 1990s and 2007-10, and for contagion in 2001-06. If we consider the ratio of frequency of the subsubgroup crisis to the subgroup development, it had maximums at the end of the 1980s, 1998-99, 2002, and 2009-10.

Group market. It had maximums in 1995 and 2001 together with the word market. Subgroup market structure reached its maximum in 1970-85, mostly due to price. Product (-s) was most popular in 1991-92, 1996, 2007. There were maximums for the subsubgroup supply at the end of the 1970s and 1995, but its components: output, production and supply reached insignificant maximums in different periods. Subsubgroup demand showed a rather downward trend, mostly owing to the word demand, while consumption had insignificant maximums in 1991-96 and 2009-10. Subgroup competition reached maximum in 1993-96, mostly due to the word competition.

Group micro-level. The group has an upward trend. Subgroup ownership had maximum in 2001-06. Subgroup firms showed an upward trend, except the maximum at the beginning of the 1970s. Subgroup management also had an upward dynamics, mostly due to management, governance, and entrepreneurship, while diversification had an insignificant downward trend. Popularity of subgroup households has been growing, except for the maximum in 1991-96.

Group human had a maximum in 2006-07, but the word human reached its maximum in the 1980s. There were maximums for the subgroup labor in 1993-98 and 2003-04, mostly due to the word labor. Popularity of the subgroup demographics had been growing before the beginning of the 1990s. Then it fluctuated before reaching its maximum in 2004-2010. Such a trend was mainly caused by the trend for subsubgroup migration. Subgroup income distribution showed a rather upward trend with maximums in 2000-02 and 2006-07, mainly due to inequality and poverty.

Subgroup social issues had been growing in popularity until 1992. Then it fluctuated before reaching another maximum in 2005-2010. In particular there was an upward trend for gender (women), cultural, child (-ren), pension (retirement), and insignificantly for society. Health reached a maximum in 1980-96 and fair – in 1960-90 and 2007-10. Subsubgroup education had maximums at the beginning of the 1970s, 1993, and 2010. The first maximum was due to university, and the second and the third ones – thanks to education. Students was most popular in 2007-10.

Group environment. Its frequency had been growing until the middle of the 1990s resulting in three maximums: in 1994-98, 2001-03, 2008-10. The first two ones are also maximums for the word environmental. Emissions reached maximum in 1997-2003 and 2007-2010. Sustainable (-ility) and climate had an upward trend. There also was insignificant dynamics: the minimum for natural and the maximum for pollution in the 1990s, and upward trend for water and renewable.

Group economic sectors. The group had maximums at the beginning of the 1980s and in 1997. Commodity showed a rather downward trend. There was also an insignificant minimum for goods in 2001-03 and low popularity of infrastructure before the 1990s.

Subgroup agriculture reached its maximum at the end of the 1980s and a local maximum in 2004. The first maximum was also relevant for the word agriculture (-al). Food had a maximum in 2008-09, while coffee – in the 1960-90s. Wine showed an upward trade. There was also an insignificant downward trend for fisheries and upward trend before 2007-2010 for dairy.

Subgroup energy sector had an absolute maximum at the beginning of the 1980s and a local maximum in 2008-10. The same dynamics was relevant for oil. The first maximum was also relevant for energy. There was also a rather downward trend for coal and nuclear and insignificant upward trend for electricity and renewable.

Subgroup industry reached its maximum in 1992-98, mainly due to industry (-ial) and manufacturing. There was an upward trend for furniture, downward trend for subsubgroup metals, and insignificant downward trend for industrialization and automobile.

Subgroup services showed an upward trend, especially the word tourism (tourist). The word services was not much popular before the 1980s. Telecommunications showed a rather downward trend. There was also an insignificant upward trend for insurance and retail.

Subgroup real estate had an absolute maximum in 1996-99 and a local maximum in 2007-08. There were also an insignificant upward trend for construction and maximums for land and estate in the 1990s and housing in 2007-10.

Subgroup innovations was relatively more popular in 1995-98, 2002-05, and 2010, while technology (-cal) – at the beginning of the 1970s and in 1995-97, and research – in 1992. Innovation and knowledge have been growing in popularity before 2007-08. Patent was most popular in the 1980s before showing a fluctuating trend. There was also an insignificant upward trend for intellectual and ICT.

Group countries. The group showed an upward trend in general except the local maximum in 1991. In the 1990s frequency of emergent grew from almost zero. There was also a rather upward trend for subgroup Asia in general (with local maximums in 1995 and 1997).

There was an absolute maximum for advanced economies in 1991, while the local was in 1999. Canada (-ian) was more popular in 1985-91 and 1996, Japan (-ese) – in 1993-97, Australia – in 1991-2003. There was also an insignificant upward trend for USA and New Zealand, and before 2001-06 – for Singapore and Hong Kong.

Subsubgroup Western Europe reached its maximums in 1991 and 1999-2001, and local maximums in 2006 and 2010. European showed similar dynamics. But trends for particular countries may differ, e.g. France (French) was most popular near 1980. There were also an insignificant minimum for Britain (British, English) at the beginning of the 2000s and upward trend for Spanish, German, and Italy.

Subgroup Central and Eastern Europe was most popular in 1994, 1998, 2001-03, and 2005, while transition – in 1998-2002. There were also insignificant maximums for Poland in 1991-2006, Czech – in 2001-06, Bulgaria – since 2001, Turkey – since 2004, Soviet – before the 2000s.

Subgroup developing countries showed an upward trend. Subsubgroup Latin America had maximums in 1995, 2002, and 2004, while Brazil – in 2004. There were also insignificant results: Latin became more popular in the 1990s, Mexico was most popular in the 1980s and at the beginning of the 2000s, Colombia showed an upward trend. Subsubgroup developing Asia showed a definite upward trend with a local maximum in 1997. A similar dynamics was shown by China, India, and several other countries, while Pakistan had a maximum in the 1990s. There was a rather upward trend for subsubgroup Africa, but with a high volatility. Nigeria had a stable, but insignificant upward trend. If we consider the ratio of frequency of advanced economies to the frequency of developing economies, it has been decreasing, but the ratio was relatively bigger in the 1960s, at the end of the 1970s, 1991 and the second half of the 1990s.

Thus, trends in popularity of research topics may be mainly determined by the following factors: crises, international economic integration, changes in economic power of countries, increasing specialization of research and interdisciplinary approach, changes in economic structure, bubbles in the markets, and growing concern about environment. Further research may involve quantitative estimation of the effect of these factors.

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INTERNATIONAL PORTFOLIO INVESTMENTS: THE SPECIFICITYOF POST-CRISIS RENEWAL

Abstract. The article is devoted to the research of international portfolio investment flows post-crisis development. The flows dynamics and directions on the global level are explored. Structural changes in global international portfolio assets and liabilities are pointed out and respective reasons are clarified. The specificity of international portfolio flows in European Monetary Union and Ukraine is discovered. The correlation structure of the global international portfolio investment market (by the example of developed, developing and emerging markets) is investigated. Ideas on how the changes in international portfolio flows structure can be used to predict volatility and shocks in international financial markets are proposed. Preconditions to the second crisis wave are provided.

Аннотация. В статье исследуются особенности пост-кризисного развития потоков международных портфельных инвестиций. Анализируются динамика и направления этих потоков. Выявляются структурные изменения в глобальных активах и пассивах международных портфельных инвесторов, выясняются их причины. Изучается специфика международных портфельных потоков в Европейском валютном союзе и Украине. На примере рынков с разным уровнем развития (развитые, развивающиеся и граничные) проводится анализ корреляционной структуры мирового рынка международных портфельных инвестиций. Предлагаются идеи, позволяющие на основе структурных изменений в потоках международных портфельных инвестиций прогнозировать приближающиеся кризисные явления на мировых финансовых рынках.

Key words: international portfolio investments, world international portfolio, investments market, global economic and financial crisis, equity securities, long-term debt securities, money market investments, global market correlation structure, international portfolio assets and liabilities, international portfolio flows structural changes.

The global economic and financial crisis that covered the world during the latest several

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years has led to a great number of functional and structural changes in the global financial architecture. All fields of international financial system have changed dramatically during the crisis and have acquired new features and peculiarities after it. A lot of trends that took shape before the crisis were broken by it. But some of them were confirmed after the crisis, though some trends were completely broken or even changed their direction. All in all the influence of the global financial crisis on the world economy and international finance is difficult to be overvalued. It covered the real sector, the finance, the humanitarian field etc.

Being the part of international financial environment the field of international portfolio investments is one of the most vulnerable and sensitive to such economic and financial shocks. International portfolio investments much more quickly response to markets drops than for instance foreign direct investments (FDI). They are in this sense much more mobile and represent a great many of transactions in comparison to FDI, that are not so mobile taking into account the large amounts and small number of transactions. International portfolio investment business was one that largest losers in the global financial crises. Portfolio investors together with banking institutions felt the drop in their liquidity almost at once after the mortgage crisis in the USA in 2006. To meet the private investors' requirements they had to sell their assets that in turn brought about the drop in prices and that drop again led to the sharp cut of investors' assets.

Analyzing the current stage a lot of scientists argue if it can be called the post-crisis period or not. To our mind this question can be answered on several key levels. First, if we consider the field of manufacturing industry or machine building the question may be considered to be opened, since the post crisis recovery may take some time and the current period cannot be completely viewed as the post-crisis one. Not all industries have completely recovered nowadays with a lot depending on the industry and good life cycle. Moreover the current stages of business cycle in different countries differ as well thus making the post-crisis period identification on the global level even more difficult. Furthermore, the second wave of the crisis is expected by some experts and it will obviously make the recovery period even longer.

Second, when we consider the financial sector especially the quick, mobile and 'aggressive' international portfolio investing business the situation appears to be rather different. The world stock market which is one of the most active platforms for portfolio investors has completely renewed after crisis. The record before crisis level of its cap reached almost 64 trillion dollar in October 2007 and then fell to its bottom of 28.8 trillion dollars in February 2009. In April 2011 its lever is almost back to its highpoint – 59.2 trillion dollars . The situation on the money markets and long-term debt papers is similar. This gives us the ground to state that the current period can be regarded as the post-crisis, for financial markets at least, since all data in the field show the signs of recovery. Moreover for quick and mobile international portfolio investments the crisis period can finish as quickly as it can start. But again this situation can be changed by the expected second crisis wave which will be able to give us other grounds to think about the explored processes.

Third, now we can observe completely different than during the crisis character of markets behavior and their investment characteristics, we mean first of all the markets risk and return trade-off and their return correlation structure. This issue will be the object of our particular attention in this article later. Fourth, the portfolio flows themselves have almost recovered after the crisis extreme drop and show confident upstream trends nowadays. And, fifth, institutional investors, first of all investment funds, have recovered their activity and have almost resumed their assets and individual investors' money, trust and confidence.

All this shapes the structure of our current research. We focus on the mentioned core international portfolio investment business components: markets and flows and intend to confirm (or disprove) that for this field the crisis is over and the present period can be completely regarded as the post-crisis. The mail goal of this research is to discover main functional changes that occurred in international portfolio investment flows during the crisis and in the post-crisis period and to reveal core changes in its dynamics. We are also to discover main changes in different markets risk and return trade-off as well as shifts in their correlation structure.

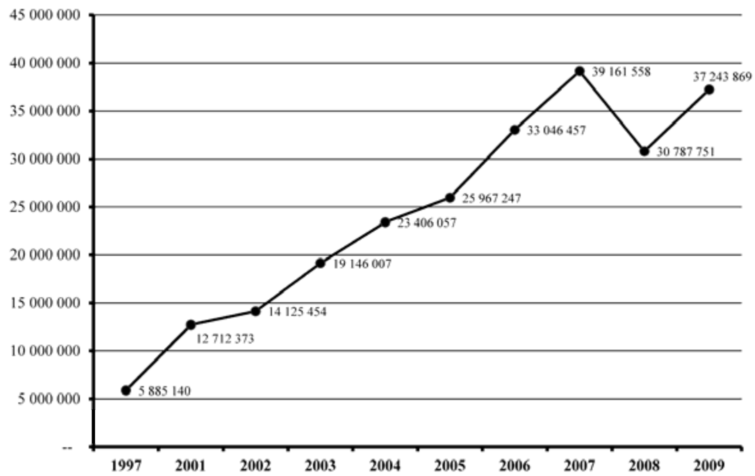

Fig. 1. Total International Portfolio Assets, mln. USD[1]

If we analyze the total global volume of international portfolio investments before the crisis we can see that since 1997 till 2007 the total assets grew permanently and rather rapidly (Fig. 1).

There was a great drop in portfolio assets in 2008 by almost 25 % – from 39.2 to 30.8 trillion $. In 2009 the total assets almost recovered to their pre-crisis record level of 37.2 trillion $. In this case we must pay attention to the year 2007 that is formally considered to be the crisis year but the portfolio flows were still increasing. The matter is that the markets ceiling in 2007 was in October and since then they began to fall. Though the cap began falling rapidly the global industry did not feel the decline in the whole year since the decline of November and December didn't override the 10-month growth. Thus the whole year showed the increase although the decline began in late fall.

	Total Assets		Equity Securities		Debt Securities			
					Short-term		Long-term	
Year	**Trillion**	**%**	**Trillion**	**%**	**Trillion**	**%**	**Trillion**	**%**
2004	23-Кві	100	8-Лип	37	1-Вер	8	12-Сер	55
2005	26.0	100	10-Чер	41	1-Вер	7	13-Тра	52
2006	33.0	100	14-Лют	43	2-Бер	7	16-Тра	50
2007	39.2	100	17-Січ	44	2-Чер	7	19-Кві	49
2008	30-Сер	100	9-Сер	32	2-Лип	9	18-Бер	59
2009	37.2	100	13-Лип	37	3-Січ	8	20-Тра	55

The analytical data on the structure of the global international portfolio investment assets is represented in Table 1.

Table 1.
Dynamics of the Global International Portfolio Assets Structure, by Instrument[2]

This data allows us to make several important conclusions. First, the crisis brought about the sharp decrease in the share of equities in the total figure of international portfolio assets. We can see that during the pre-crisis period the share of equities increased from 37 % in 2004 to 44 % in 2007 with permanently growing absolute figures. Then it fell to 32 % in 2008 and recov-

[1] According to the IMF Coordinated Portfolio Investment Survey data.
[2] All percentage figures are rounded to whole numbers. According to the data of the IMF Coordinated Portfolio Investment Survey.

ered a little in the post-crisis 2009 – to 37 %. Such situation can be explained by the fact that the extreme rise of risks (without adequate rise of returns) on equity markets during the crisis brought about the shift of international portfolio investors to less risky debt securities. In other cases lots of investors just refused to invest or withdrew their investments. Many investors driven particularly by home bias shifted their holdings from international to domestic assets. As the risks diminished after the crisis the share of equities began to go up. Furthermore the 2009 returned the trust back to the global financial industry that attracted new capital.

Second, the crisis brought about the growth of money market instruments investment share. Its pre-crisis level varied on the level of 7-8 %, but rose to 9 % in 2008. In 2009 it reached the status quo on the level of 8 %. Such shift can be explained by lower risks in the short term instruments markets and the growing popularity of international money market in general. But all in all the difference between the pre-crisis, crisis and post-crisis absolute figures is not significant so we cannot state that the decrease in the equities share is reflected in the growth of money market instruments investments. Though if we analyze the relative figures the growth from 7 to 9 % means the 28.6 % growth that is almost one third.

Third, the most part of equity instrument share decrease reflected on the share of long-term instruments. It increased by 10 percentage points in 2008 – from 49 to 59 % and fell to 55 % in the post-crisis period. The pre-crisis share varied from 49 to 55 % permanently decreasing. That is because the global situation with indebtedness worsened lately especially after the mortgage crisis in the USA when major rating agencies lowered their sovereign ratings. The 2008 increase of this figure is by 20.4 % and in 2009 it decreased by 6.8 %.

This structure data also allows us to notice that in 2006 and 2007 the rates of equity securities share growth and the debt securities shares decrease slowed down if compared with early years. Thus we can see that these figures began to change somewhere before the crisis and assume that their dynamics can be used to predict the crisis. We mean the sharp necessity to notice when these growth and decrease rates begin to slow down so that to expect the crisis. The main task then is to correctly estimate the time lag and the rates of increase and decrease slowing down so that we could state that the shock is approaching. But this issue requires further closer look and deep research in order to be proved or denied.

One more important thing we must explore is the geographic structure of international portfolio assets and liabilities. By geography we mean first of all not the geography in the traditional sense but the geography of markets such as developed markets, emerging markets etc. The level of a market development is meaningful in this context. The reason is the following. During the crisis (especially in its early phase) major capital flows changed their direction from developed markets to less developed countries, since the risks in the first rose extremely without respective rise of returns. Instead of less developed markets as well suffered from risks growth but still had much higher returns. Such shifts in capital flows changed the usual situation in the balances of payments of the countries. That’s why the analysis of these changes during and after the crisis is important and timely.

Thus we actually come not to markets geography but to markets classification. We base our study on the traditional classification of stock markets used for international portfolio capital flows research. This classification is conducted by Morgan Stanley Capital International (MSCI) and is mostly supported by Standard and Poor’s (S&P) and other rating and analytical agencies. According to this classification all stock markets are divided into 3 groups depending on the level of their development: developed, emerging and frontier. This classification differs from that one of economies conducted by the IMF or World Bank but for most countries they coincide. Moreover MSCI do not classify all markets of the world but only those that are rather important from the point of view of their capitalization. So there are 24 developed markets, 21 emerging and 25 frontier markets identified. Other markets that are not covered by this classification are included into the separate group "Others" in our research. This group accounts for a pretty small portion of global portfolio flows (less than half percent) and thus doesn't have any seri-

Invest from:	2002	2003	2004	2005	2006	2007	2008	2009
Developed	12023587	16385496	20118649	22331891	28663037	33711666	25443727	31366735
	85.1	85.6	86.0	86.0	86.7	86.1	82.6	84.2
Emerging	78871	119100	153862	219159	340413	489934	348748	491344
	.6	.6	.7	.8	1.0	1-Бер	1-Січ	1-Бер
Frontier	33520	57541	100774	134837	193934	295269	264807	329009
	.2	.3	.4	.5	.6	.8	.9	.9
Off-shores	545577	711153	855093	1019281	1222108	1467713	1028519	1157364
	3-Вер	3-Лип	3-Лип	3-Вер	3-Лип	3-Лип	3-Бер	3-Січ
Others	14798	22934	32666	40942	68606	87606	58872	81871
	.1	.1	.1	.2	.2	.2	.2	.2
Int. org-s and reserves	1429101	1849783	2145013	2221136	2558358	3109369	3643077	3817546
	10-Січ	9-Лип	9-Лют	8-Чер	7-Лип	7-Вер	11-Сер	10-Бер
Total value	14125454	19146007	23406057	25967247	33046457	39161558	30787751	37243869
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

ous methodological and practical meaning. And we explore one more group of markets that are in off-shores. The geographical structure of global international portfolio investments assets is represented in Table 2.

Table 2.

Geographical Structure of the Global International Portfolio Assets, in millions of USD and %[3]

Analyzing the data of Table 2, we can state that the structure of global portfolio assets did not change significantly under the crisis impact. If allowed we can say that in this sense portfolio investments were rather stable in their instability. Anyway one should note that the share of developed markets decreased from 86.1 % in 2007 to 82.6 % in 2008 and then rose to 84.2 % in 2009. That's because developed markets investors cut their assets in absolute figures and partially shifted to domestic assets reducing risks. The share of frontier markets was permanently growing since 2002 and the crisis did not change this upstream movement, though the absolute and relative figures are now pretty small, just .9 % of the global assets' volume. The share of emerging markets and off-shores dropped a little like the share of developed markets.

The noticeable thing in this structure dynamics is the increase of the share of international organizations holdings and the share of securities held as reserve assets. This figure was confidently decreasing before the crisis, and its growth in 2008 can be explained by the actions of international organizations to save the industry and to prevent the securities from sharp drop. The 2008 gave us the increase of this figure by 49.4 % – from 7.9 to 11.8 % and this share remains

Investment in:	2002	2003	2004	2005	2006	2007	2008	2009
Developed	12029008	16342100	19820457	21662467	27292598	31632394	25595607	30583997
	85.8	85.4	84.7	83.4	82.6	80.8	83.1	82.1
Emerging	482422	809431	1041215	1466093	2011773	2810561	1543509	2582067
	3-Кві	4-Лют	4-Кві	5-Чер	6-Січ	7-Лют	5.0	6-Вер
Frontier	34852	55031	76359	86648	141757	172577	114468	147581
	.2	.3	.3	.3	.4	.4	.4	.4

[3] The poured figures are percentages. Calculated by the author on the basis of the IMF Coordinated Portfolio Investment Survey data.

Investment in:	2002	2003	2004	2005	2006	2007	2008	2009
Off-shores	866371	1225129	1603032	1855953	2420662	3201010	2115826	2416770
	6-Лют	6-Кві	6-Сер	7-Січ	7-Бер	8-Лют	6-Вер	6-Тра
Other	272200	332373	410023	393703	624336	727130	784762	857038
	1-Вер	1-Лип	1-Сер	1-Тра	1-Вер	1-Вер	2-Тра	2-Бер
Int. org-s and reserves	337847	381921	454477	495102	558633	626656	633586	656393
	2-Кві	2.0	1-Вер	1-Вер	1-Лип	1-Чер	2-Січ	1-Сер
Total value	14022699	19145985	23405563	25959967	33049758	39170328	30787759	37243845
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

on a rather high level in 2009.

The next step of our research is to investigate the structure of global portfolio liabilities (Table 3).

Table 3.
Geographical Structure of the Global International Portfolio Liabilities, in millions of USD and %[3]

The consequences of the crisis in the sense of global portfolio liabilities are that the share of more risky emerging and off-shore markets dropped and the share of less risky developed markets and other markets rose as well as the share of international organizations. The situation with frontier markets is the same as in previous case – their share did not change at all.

We must as well notice some more significant structural changes in international portfolio flows. The crisis brought about the shift from privately issued securities to public sector debt papers. And this trend is valid for all market segments, we mean for money market as well as for notes and bonds markets segments. This shift occurred not only because of the tendency to reduce risks but as well because investors searched for higher liquidity. This is as well because of the tendency to reduce extremely grown risks. The Euro area portfolio investors disinvested a lot and repatriated their funds during the crisis while their liabilities grew because foreign investors decreased the risks by investing in European assets. And if we recollect the mentioned home bias it was even more typical for European developed markets investors.

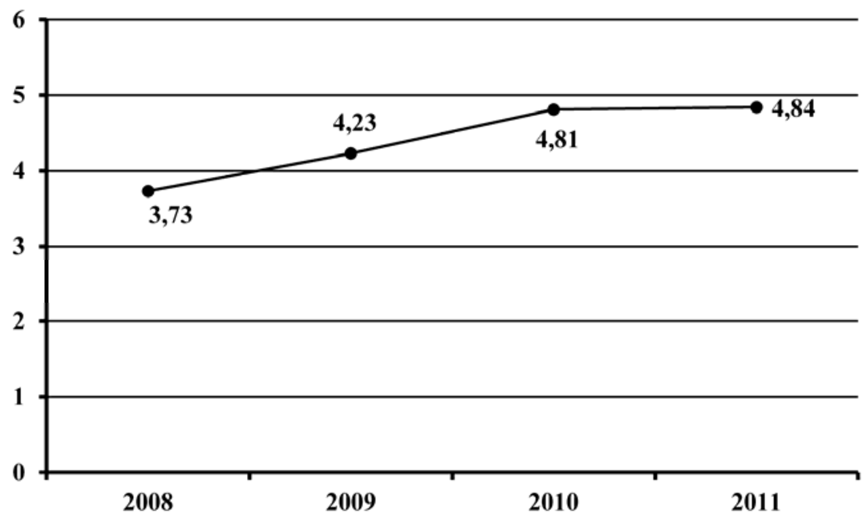

Fig. 2. Total International Portfolio Assets of the countries of EMU, trillion EUR[4]

In all cases we can observe that all figures show confident signs of post-crisis recovery. If we again take into consideration the close to Ukraine region – European Monetary Union

[4] Figure for 2011 represents the data as of Q1 of 2011. According to the European Central Bank data.

(EMU) the present dynamics of its total international portfolio assets also shows confident signs of post-crisis renewal (Fig. 2).

Year	Total	Equity			Bonds and Notes			Money Market Instruments		
		Total	MFI[6]	Non-MFI	Total	MFI	Non-MFI	Total	MFI	Non-MFI
2008	3727.6	1128.6	68.4	1060.2	2164.2	964.8	1199.4	434.8	358.1	76.7
2009	4226.3	1488.7	76.2	1412.5	2339.5	917.5	1422.0	398.1	327.3	70.8
2010	4809.7	1900.9	96.9	1804.0	2510.8	800.7	1719.1	398.0	312.9	85.1
2011[7]	4838.6	1900.0	88.7	1811.3	2538.4	813.7	1733.7	400.2	308.6	91.6

We can see, that in 2009 and 2010 assets increased from 3.73 trillion EUR in 2008 to 4.81 in 2010, and in the first quarter of 2011 they as well went up from 4.81 in 2010 to 4.84 trillion euros. Most global crisis and after-crisis trends can be completely confirmed by the example of the EMU (Table 4).

Table 4.
Securities breakdown of portfolio investments assets of the EMU, in billions of EUR[5]

We can see that all absolute figures of international portfolio assets are growing since 2009

Year	Total	Equity			Bonds and Notes			Money Market Instruments		
		Total	MFI[9]	Non-MFI	Total	MFI	Non-MFI	Total	MFI	Non-MFI
2008	100	30-Бер	1-Сер	28-Кві	58.1	25-Вер	32.2	11-Лип	9-Чер	2-Січ
2009	100	35.2	1-Сер	33.4	55.4	21-Лип	33.6	9-Кві	7-Лип	1-Лип
2010	100	39.5	2.0	37.5	52.2	16-Чер	35.7	8-Бер	6-Тра	1-Сер
2011[10]	100	39.3	1-Сер	37.4	52.5	16-Сер	35.8	8-Бер	6-Кві	1-Вер

till the first quarter of 2011. Moreover one can notice the growth in any taken observed period even in the first quarter of 2011. Only one figure decreased a little – the total volume of equities investments. The figure for the end of 2010 was 1900.9 billion euros and it dropped a little in 2011 – to 1900.0 billion. Still further investigation is required in this sense in order to explore the structural changes in the total assets (Table 5).

Table 5.
Securities breakdown of portfolio investments assets of the EMU, in %[8]

The relative figures of Table 5 show us that the post-crisis period is characterized by the following core trends. First, the rates of equities investments growth are increasing. They went up from 30.3 % in 2008 to 35.2 % in 2009 and 39.5 % in 2010. Second, the reverse side of the same coin reflects the drop in the respective rates of debt securities. The figures for bonds and notes investments in the respective years are 58.1 %, 55.4 % and 52.2 %. Third, the share of the money market instruments investing is also decreasing. All these shifts in the EMU confirm the above outlined global trends and all in all practically support the idea that the post-crisis risk pro-

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[5] Calculated by the author on the basis of ECB Data.
[6] MFI – Monetary and Financial Institutions.
[7] The data for 2011 represent the figures for the Q1
[8] Calculated by the author on the basis of Table 4 data. In some cases the sum of the shares may not be equal to 100 % because of the rounding.
[9] MFI – Monetary and Financial Institutions.
[10] The data for 2011 represent the figures for the Q1.

file has changed. The decreased risks and the increase in business activity brought about the investors' come back to more risky equity securities. Less risky bonds, notes and money market instruments that were much more popular during the crisis now have given way to stocks. This in turn verifies that the present period can be considered as the post-crisis.

Notwithstanding the year 2011 showed some opposite shifts though the only quarter cannot be completely representative in this sense. We can see that the share of equities (the rate of growth) dropped a little – from 39.5 % to 39.3 % with the simultaneous growth of the respective figure for bonds and notes – from 52.2 % to 52.5 %. The rates for money market did not change in the first quarter. The mentioned issues give us the ground for the following substantial assumption. If we take that the our thesis about the definite changes in the risk profile and the respective structure of international portfolio investment flows changes before, during and after the crisis is right then we can forecast the instability in the global financial market especially concerning the problems with liquidity. In order to make such forecasts further research is required but still the idea looks successful. The two core issues in this sense are to define the parameters of such structural changes and the framework for the different types of risk profiles. And, second, we must determine the appropriate time lags in order to clarify the time period since the structural changes and till the instability itself.

And that completely corresponds to the dominating nowadays expectations of the second crisis wave. Most scientists and practitioners agree that the second wave of the crisis is coming but nobody knows its chronology for sure. And again if our assumption is true and if we accept that the second crisis turn will actually occur then such method of crisis forecasting can be correct and is obviously true thought the problem of time lags and figures values still remains unsolved. Anyway we have pointed the directions of substantial interrelation between international portfolio investments market and the global financial market and these markets mutual co-influence.

The next significant question we are going to explore and that is of great importance for international portfolio investments is the markets risk and return trade-off and the interdependence between markets themselves. In order to conduct such a research we arbitrary take three different countries representing three different groups of markets (according to the above mentioned MSCI classification) – the USA (developed markets), China (developing markets) and Ukraine (emerging markets)[11]. For every one we take the 5-year period from 2007 to 2011 and calculate the monthly returns for every period[12] . So we finally get 12 returns for 4 full periods and 6 returns for 2011. The methodology of the data array formation is the following. To calculate any given return we use the MSCI standard country index that includes large and mid-cap companies. All indices are converted into euros that allows making correct comparisons and imply complete reinvesting of dividends on stocks underlying. All indices data is monthly with the figure itself representing the last trading day of the month.

Moreover we investigate the world market that is represented by MSCI All Country World Index (ACWI Index). It consists of 45 country markets and includes 24 developed and 21 emerg-

$$r_i = \frac{I_i + (P_{i1} - P_{i0})}{P_{i0}}, \qquad (1)$$

ing market country indices and is free float-adjusted market capitalization weighted index. We calculate the returns for the ACWI as well as for three above mentioned country indices. The next

[11] The respective indices are China Standard (Large + Mid Cap) Index, Ukraine Standard (Large + Mid Cap) Index and USA Standard (Large + Mid Cap) Index.

[12] The data for 2011 is for the first 6 months only (6 period from January to June including).

step of our research is to calculate risks and average returns for all ratios in all periods. And finally we measure the correlation between the country indices and the World Index in all periods. These figures will be later analyzed and their dynamics will be explored.

So first is the returns calculation. The returns are calculated on the basis of the indices figures using the simple return formula (1) and are often expressed in percentage:

where r_i is the index i return for the period, I_1 – index i dividends cash flow for the period

№	Year	Month №	ACWI Index	China	Ukraine	USA
1	2007	1	2.509	-2.823	16.354	3.317
2	2007	2	-2.107	-3.356	-4.961	-3.426
3	2007	3	1.267	3.058	3.452	.307
4	2007	4	1.911	1.208	.670	1.719
5	2007	5	4.538	9.061	1.931	4.971
6	2007	6	-.620	11.130	-5.448	-2.029
7	2007	7	-2.821	8.874	3.453	-4.391
8	2007	8	.175	7.645	-11.478	1.935
9	2007	9	1.035	14.972	-6.711	-.503
10	2007	10	2.154	14.612	7.348	-.044
11	2007	11	-5.755	-14.758	-9.381	-5.598
12	2007	12	-.688	-4.068	6.515	-.177
13	**2007 – AVERAGE**		**.133**	**3.796**	**.145**	**-.327**
14	2008	1	-9.318	-22.544	-8.214	-7.246
15	2008	2	-2.148	8.044	-.719	-5.502
16	2008	3	-5.557	-15.860	-13.896	-4.546
17	2008	4	7.528	17.663	-6.510	6.813
18	2008	5	1.863	-4.782	7.341	1.782
19	2008	6	-9.431	-13.339	-11.398	-9.404
20	2008	7	-1.610	3.308	-17.060	-.174
21	2008	8	3.739	-2.695	-10.477	7.428
22	2008	9	-8.245	-16.557	-35.049	-4.802
23	2008	10	-11.150	-14.420	-28.435	-8.171
24	2008	11	-6.569	4.481	-17.788	-7.440
25	2008	12	-5.362	.869	-14.199	-7.532
26	**2008 – AVERAGE**		**-3.855**	**-4,653**	**-13,034**	**-3.233**

[13] Calculated by the author on the basis of MSCI index data.

№	Year	Month №	ACWI Index	China	Ukraine	USA
27	2009	1	-.764	-.536	-1.458	-.367
28	2009	2	-8.916	-2.300	-20.530	-9.439
29	2009	3	3.590	9.174	2.304	3.855
30	2009	4	12.115	11.322	26.703	9.816
31	2009	5	3.057	9.894	27.644	-1.233
32	2009	6	.387	5.081	-4.120	1.141
33	2009	7	7.679	9.653	-3.821	6.393
34	2009	8	2.369	-8.151	-7.391	2.230
35	2009	9	2.712	2.768	5.224	1.985
36	2009	10	-2.443	5.451	22.257	-2.850
37	2009	11	2.361	.690	-10.249	4.121
38	2009	12	6.840	5.124	-2.138	6.799
39	**2009 – AVERAGE**		**2.416**	**4.014**	**2.869**	**1.871**
40	2010	1	-1.218	-5.691	11.876	-.398
41	2010	2	3.185	4.084	12.341	4.993
42	2010	3	7.396	6.320	25.360	6.897
43	2010	4	1.988	1.425	11.229	3.394
44	2010	5	-1.817	2.554	-21.179	-.376
45	2010	6	-2.876	1.448	6.885	-5.151
46	2010	7	1.701	-1.871	.108	.591
47	2010	8	-1.037	-.315	-9.360	-2.047
48	2010	9	2.035	1.566	-7.202	1.560
49	2010	10	1.793	2.046	-4.850	2.091
50	2010	11	4.440	4.232	16.305	6.891
51	2010	12	4.167	-3.660	16.000	3.523
52	**2010 – AVERAGE**		**1.647**	**1.012**	**4.793**	**1.831**
53	2011	1	-.590	-2.657	6.149	.198
54	2011	2	2.193	-2.529	16.660	2.589
55	2011	3	-2.728	2.509	-7.269	-2.554
56	2011	4	-.379	-2.794	-3.265	-1.421
57	2011	5	1078	3.575	-5.392	2.081
58	2011	6	-2.368	-4.480	-7.433	-2.526
59	**2011 – AVERAGE**		**-.466**	**-1.063**	**-.092**	**-.272**

(it is already included into the index value and thus not used in the calculations directly), P_{i0} – index *i* value at the beginning of the period, P_{i1} – index *i* value at the end of the period (this figure includes the gross reinvesting of dividends for the period).

The results of the returns calculations are represented in Table 6.

Table 6.

Markets monthly returns, in %[13]

Analyzing the data of Table 6 we must pay attention to the following core substantial issues. First, the years 2009 and 2010 show complete post-crisis returns renewal in all markets and in the global market. All returns are positive and rather high. In the crisis 2008 all returns in all markets were negative with the highest negative value for Ukraine of -13.034 %. And we must as well notice that the developed USA market always had the most stable return figures that were more close to the figures of the global market (we hope to support this idea later when exploring the global market correlation structure). Actually the basic idea to be explored later is that the more developed the market the closer it will behave to the global market. Second, less developed markets like developing or emerging group showed less stable returns dynamics. For example, Ukraine had a very substantial returns drop in 2008 and the highest average return of 4.793 % in 2010. China's returns were not very stable as well and in 2011 had the lowest negative value of -1.063 %. And finally third, the years 2010 and 2011 showed worse dynamics then 2009. All returns in 2010 (except Ukraine) were lower than in 2009 and all 2011 returns were negative at all. That can be again considered as the additional evidence of the changed risk and

№	Year	ACWI Index	China	Ukraine	USA
1	2007	2.65 (.133)	8.53 (3.796)	7.70 (.145)	3.00 (-.327)
2	2008	5.58 (-3.855)	11.54 (-4.653)	10.82 (-13.034)	5.58 (-3.233)
3	2009	5.08 (2.416)	5.57 (4.014)	14.51 (2.869)	4.85 (1.871)
4	2010	285 (1.647)	3.28 (1.012)	12.81 (4.793)	3.44 (1.831)
5	2011	1.74 (-.466)	2.99 (-1.063)	8.79 (-.092)	2.06 (-.272)

return profile before the second wave of the crisis. Though again we had only half a year statistics in 2011.

Now we must have a look at the risk of the investigated markets. The risks are the standard deviations of the monthly returns and are represented in Table 7.

Table 7.

Markets risks (average returns) dynamics, standard deviations (%)[14]

The risk and return data analysis gives us the following results. First, the risks rose extremely in the crisis 2008. In some cases the growth figure was almost twice – from 3.00 to 5.58 (the USA) and even more than twice – from 2.65 to 5.58 (the world market). Second, the post-crisis period can be described by the risks drop for all (except Ukraine in 2009) cases. In 2009 the drop for the world market was .5 percentage points – from 5.58 to 5.08, it was more than twice for China and .73 percentage points for the USA. The next post-crisis year 2010 showed much more violent drop in risks – almost twice for the world and China and a little less for Ukraine and the USA thus again showing the post crisis-renewal of the field. And, finally, third, but probably the most important in the part of risks is that the 2011 did not demonstrate the increase in risks in spite of the decrease in returns. Moreover, the risks again decreased and the de-

[14] Calculated by the author on the basis of Table 6 data. For the convenience of analysis the average returns figures from Table 6 are represented in brackets.

crease rates were rather high – by 39 % for the world market, by 8.8 % for China, by 31.4 % for Ukraine and by 40 % for the USA. Thus we can state that these figures do not let us to surely confirm the second crisis wave though most figures suggest this idea. We must again keep in mind that the array includes only half a year indeed but if our figures are true then the conclusion is that the crisis and before crisis risk-return profile has not developed yet. Therefore either the second wave of the crisis is not coming yet (or will not come at all) or the time lag before such structural changes and the crisis is much wider and requires further identification.

Ukraine looks to be an exception from the generally common risk and return profile dynamics. The matter is that the economics is rather unstable and risky especially from the point of view of political situation. And this is the issue which is rather typical for domestic investors who have already got used to operate in such environment. But for foreign investors this situation can be scaring and unusual and they respond to such instability rather quickly and so do their international portfolio flows thus influencing the market substantially. Moreover the sovereign ratings of Ukrainian debt more often worsened during the past years bringing about portfolio disinvestment by foreign investors. That is why out country had strange figures in all observed years except the 2007 that was the market top before the crisis.

Market	**USA**					**China**					**Ukraine**					**World**				
	7	*8*	*9*	*10*	*11*	*7*	*8*	*9*	*10*	*11*	*7*	*8*	*9*	*10*	*11*	*7*	*8*	*9*	*10*	*11*
USA						.30	.50	.44	.47	.20	.40	.36	.25	.57	.69	.92	.93	.96	.92	.95
China											.01	.36	.65	.10	-.34	.54	.73	.57	.43	.06
Ukraine																.47	.57	.44	.65	.71
World																				

Finishing our risk-return research we must explore the correlation of the markets under consideration and the world market as well as their correlation between themselves. So basing on the above organized data array we calculate the simple correlation between the Chinese, American, Ukrainian and world markets in any of the years given and present the results in a correlation matrix in Table 8.

Table 8.

Different markets correlation matrix, in ratios[15]

Analyzing the correlations we must keep in mind two well-known ideas. First, the further the higher the correlations between different markets. This can be explained by the issue that developing the world becomes more integrated, different markets become more integrated, and they have more and more common features and mutual procedures. Globalization brings about closer ties between all segments of global economy particularly between financial markets and their different segments. The further integration is developing the more unified become the trading procedures and pricing systems, and the more stock prices depend between themselves. It means that the further the higher are the correlations taken all others equal. And second, during crises markets become more volatile and much more dependent. There is some evidence that during crises and different market shocks markets can behave almost in the same way even markets from different market groups. It means that during crises and shocks different markets have higher than normal correlations. And this in turn opens gates for crisis transmission thus making the world even more global and the crisis itself even more overwhelming and its spread

[15] Calculated by the author. 07, 08, 09, 10 and 11 – represent the years 2007, 2008, 2009, 2010 and 2011 respectively.

speed much higher. So with the correlations decrease after the crisis the post-crisis period is coming and the gates for crisis transmission are closing.

The correlations testify that the more developed the market the more it correlates with the global market. The respective figures for the USA vary from .92 to .96. For China and Ukraine the figures vary respectively from .43 to .73 (if not taking into account the abnormally small figure of .06 in 2011) and from .44 to .71 with average figures being higher for China. It means that the USA (and developed markets in general) is much deeper integrated into the global financial market that is also supported by risk and return data.

From the correlations dynamics we can see that in 2008 all correlations rose with only one between Ukraine and the USA fell a little – from .4 to .36. And this completely corresponds to the idea of correlations increase during the crisis. In 2009 almost all figures dropped with only two exceptions – one for abnormal figures for Ukraine in 2009 and the second for the USA – from .93 to .96 that is not important in this case since American figures were extremely high even before the crisis. Thus the correlation structure of the global market testifies to the post-crises renewal.

What concerning the expectations of the second crisis wave the correlation dynamics shows us the following. In 3 of 6 cases the correlation in 2011 did not rise. All these 3 cases include correlation with Chinese market that behaved very untypically in 2011. All other cases confirm the correlation increase thus supporting the idea of approaching shock that in our case can be the second crisis wave. If we take China as an exception rather than a rule then we can the by and large accept the general case or correlations increase. Hence we can again predict the increased volatility at least though final and definite conclusion requires much wider data array and countries set.

The last issue we shall explore in this research is the post-crisis specificity of international portfolio investments in Ukraine. The data of Table 9 demonstrates that seeking for liquidity during the crisis foreign residents were actively selling their Ukrainian portfolio assets in 2008 and 2009 with respective figures being -1292 and -1551. The post-crisis recovery came rather quickly in 2010 when foreign residents invested 4334 million USD in Ukrainian assets but still

Balance of Payments Article	**2006**	**2007**	**2008**	**2009**	**2010**	**2011 (half year)**
ASSETS	**-3**	**-29**	**12**	**-8**	**-17**	**-4**
Equities	-2	-21	10	-6	4	...
Debt Securities	-1	-8	2	-2	-21	...
Bonds and Notes	-1	-8	2	-2	-21	...
Money Market Instruments	0	0	0	0	0	...
LIABILITIES	**3586**	**5782**	**-1292**	**-1551**	**4334**	**3008**
Equities	322	715	388	105	290	266
Debt Securities	3265	5067	-1680	-1656	4044	2742
Bonds and Notes	3190	5143	-1680	-1684	4039	2776
Money Market Instruments	74	-76	0	28	5	-34
TOTAL PORTFOLIO INVESTMENTS	**3583**	**5753**	**-1280**	**-1559**	**4317**	**3004**

[16] The National Bank of Ukraine balance of payments statistics. Assets are with "minus" as they appear in the balance of payments and liabilities are with "plus". Positive assets operation means that existing foreign assets were sold (disinvestment from the point of view of Ukrainian residents). In the same way negative liabilities operation means that foreign residents sold Ukrainian assets.

having not achieved the pre-crisis level of 5782 million dollars. The figure for the first six months of 2011 is 3008 that is pretty high and looks like exceeding the previous one in the year end. What concerning assets we are not going to draw any conclusions since the absolute figures are extremely small but the positive figure of 12 for 2008 confirms the residents will to get their liquidity back by selling assets. Anyway the 2009-2011 period shows clear signs of post-crisis recovery.

Table 9.

International portfolio assets and liabilities operations of Ukraine, in millions of USD[16]

But what is more important is the portfolio assets and liabilities structure by instruments that

Balance of Payments Article	2007	2008	2009	2010	2011	2011 (1 Jul)
ASSETS	**63**	**103**	**49**	**79**	**94**	**99**
	-100	**-100**	**-100**	**-100**	**-100**	**-100**
Equities	56	88	45	73	67	73
	-88,9	-85,4	-91,8	-92,4	-71,3	-73,7
Debt Securities	7	15	4	6	27	26
	-11,1	-14,6	-8,2	-7,6	-28,7	-26,3
Bonds and Notes	7	15	4	6	27	26
	-11,1	-14,6	-8,2	-7,6	-28,7	-26,3
Money Market Instruments	0	0	0	0	0	0
	(.0)	(.0)	(.0)	(.0)	(.0)	(.0)
LIABILITIES	**12861**	**18618**	**17059**	**15567**	**20034**	**23279**
	-100	**-100**	**-100**	**-100**	**-100**	**-100**
Equities	1248	2082	2304	2421	2773	3171
	-9,7	-11,2	-13,5	-15,6	-13,8	-13,6
Debt Securities	11613	16536	14755	13146	17261	20108
	-90,3	-88,8	-86,5	-84,4	-86,2	-86,4
Bonds and Notes	11515	16536	14755	13117	17200	20080
	-89,5	-88,8	-86,5	-84,3	-85,9	-86,3
Money Market Instruments	98	0	0	29	61	28
	(.8)	(.0)	(.0)	(.2)	(.3)	(.1)

can predict the increasing volatility as we have pointed above. To analyze this structure we shall use the international investment position statistics of Ukraine that is again provided by the National Bank of Ukraine. Unlike the balance of payments data that reflects the flows position data represent the investments stock that has been accumulated on a certain date. The flows structure can actually be much more sensitive to shocks that the flows themselves. The structure data is represented in Table 10.

Table 10.

International portfolio assets and liabilities of Ukraine, in millions of USD[17]

[17] The National Bank of Ukraine international investment position statistics. Percentage figures are presented in brackets and are rounded to one tenth. The cited data is on the 1st of January of the given year except the last column.

Considering the portfolio investment flows structure we must note several core issues. First, foreign assets' of Ukrainian portfolio investors structure changed during the crisis and after it in the direction opposite to that one observed for the global market. Instead of decreasing the share of equities jumped up a little in 2008 (from 85.4 % to 91.8 %) and in 2009 (from 91.8 % to 92.4 %). And then it dropped in 2010 and 2011. But we are still not going to draw final conclusions on this basis since the absolute figures are pretty small and to our mind cannot be considered as representative. Almost all changes in equities share were reflected in respective (opposite) changes in debt securities share with the money market of Ukraine being almost undeveloped and thus it attracted no foreign portfolio investments.

And, second, liabilities structure as well changed oppositely to the global market trend. In 2008 and 2009 the share of equities increased respectively from 11.2 % to 13.5 % and from 13.5 % to 15.6 %. The debt securities showed opposite to equities changes with the money market being pretty small. Unlike the case with assets this situation is more representative and it moreover shows the attitude of foreign investors to Ukraine as the part of the global portfolio investment market. Such unusual behavior can be explained by the following reasons. First, as we mentioned above the crisis brought about the global shift in the geography of international portfolio flows. Seeking for lower risks with low and negative returns being observed everywhere investors moved to less developed markets. Actually Ukraine was not very popular from this very point of view. It was rather not so favorable to attract investment than to promote their structure change. And this is the second reason. The risks of default on debt securities (even sovereign and guaranteed) rose so high, that even high traditional risks of stock became more acceptable for foreign investors. Thus many of them preferred to invest rather in risky Ukrainian stocks than in highly probable defaultable debt papers. And, third, the shift from debt securities occurred particularly because of the permanently unstable political situation that made sovereign papers totally unacceptable for foreign investors. All this means that Ukrainian market substantially differs from the global market from the point of view of the portfolio flows structure. Thus the typical methods and approaches to global market analysis can slightly be used in Ukrainian realities.

And it is valid for the above used approaches to crisis and shocks forecasting. We cannot define for sure if the current period is the post-crisis one in Ukraine, or the second crisis wave is approaching. The data for 2010 and 2011 do not again confirm the typical trends observed for the global market. We have the decreased figure for liabilities in 2010 (from 15.6 % to 13.8 %) and it has almost not changed in the first half of 2011 and is 13.6 %.

Summing up the current research we can draw the following most important conclusions and outline the most substantial findings. First, the field of international portfolio investments and the global international portfolio investment market are very sensitive to different shocks and crisis. The investment industry rather quickly responded to the crisis beginning in 2007 and not less quickly responded to its end in late 2009 and 2010. Most data and analysis conclusions confirm that the global portfolio industry has recovered from the crisis but the second crisis wave is quite possible. The post-crisis recovery is also confirmed by the dynamics of the global portfolio assets that fell in 2008 from 39.2 to 30.8 trillion $ and then again increased to 37.2 trillion in 2009.

Second, the crisis brought about some substantial changes in the structure of global portfolio assets and liabilities. One of the most important is the sharp decrease in the share of equities in the total figure of international portfolio assets in 2008. Later this figure recovered a little in 2009. This is because the extreme rise of risks without respective increase in returns on equity markets during the crisis brought about the shift of international portfolio investors to less risky debt securities or investors just refused to invest or even withdrew their investments. Many investors driven particularly by home bias shifted their holdings from international to domestic assets. As the risks diminished after the crisis the share of equities began to go up. On the other hand the opposite shift took place. The money market and the bond and notes market shares increased.

Third, in 2006 and 2007 the rates of equity securities share growth and the debt securities shares decrease slowed down if compared with early years. Thus we can see that these figures begin to change somewhere before the crisis and assume that their dynamics can be used to predict the crisis. There is the sharp necessity to notice when these growth and decrease rates begin to slow down so that to expect the crisis. The main task thus is to correctly estimate the time lag and the rates of increase and decrease slowing down so that we could state that the shock is approaching. But this issue requires further closer look and deep research in order to be proved or denied.

Forth, during the crisis major capital flows changed their direction from developed markets to less developed countries, since the risks in the first rose extremely without respective rise of returns. Instead of less developed markets as well suffered from risks growth but still had much higher returns. The crisis also brought about the shift from privately issued securities to public sector debt papers in all market segments.

Fifth, the close to Ukraine European Monetary Union has also recovered after crisis. Most global crisis and after-crisis trends can be completely confirmed by the example of the EMU. The structural changes also correspond to global trends and structural changes in the world market. The shifts in the post-crisis risk profile have brought about the decrease in risks and the increase in business activity. This in turn brought about the investors' return to more risky equity securities. Less risky bonds, notes and money market instruments that were much more popular during the crisis now have given way to stocks.

In 2011 we observe some opposite shifts. The share of equities (the rate of growth) dropped a little – from 39.5 % to 39.3 % with the simultaneous growth of the respective figure for bonds and notes – from 52.2 % to 52.5 %. This allows us to make the following assumption. If our thesis about the definite changes in the risk profile and the respective structure of international portfolio investment flows changes before, during and after the crisis is right then we can forecast the instability in the global financial market especially concerning the problems with liquidity. In order to make such forecasts further research is required. And that completely corresponds to the dominating nowadays expectations of the second crisis wave. If our assumption is true and if we accept that the second crisis turn will actually occur then such method of crisis forecasting can be correct and is obviously true thought the problem of time lags and figures values still remains unsolved.

Sixth, from the point of view of risk and return behavior of different markets we can confirm that the years 2009 and 2010 show complete post-crisis returns renewal in all markets and in the global market. All returns are positive and rather high. Risk and return data also support the idea that the more developed the market the closer it behaves to the global market. The years 2010 and 2011 showed worse dynamics then 2009. Most returns in 2010 were lower than in 2009 and all 2011 returns were negative at all. That can be again considered as the additional evidence of the changed risk and return profile before the second wave of the crisis.

All markets risks rose extremely in the crisis 2008. The post-crisis period can be described by the risks drop for all (except Ukraine in 2009) cases. The next post-crisis year 2010 showed much more violent drop in risks thus again showing the post crisis-renewal of the field. But the year 2011 did not demonstrate the increase in risks in spite of the decrease in returns. Thus we can state that these figures do not let us to confirm the second crisis wave.

Seventh, the correlation structure of the global market testifies that the more developed the market the more it correlates with the global market. It means that developed markets in general are much deeper integrated into the global financial market that is also supported by risk and return data. The correlations dynamics confirms that in 2008 most correlations rose and this completely corresponds to the idea of correlations increase during the crisis. In 2009 almost all figures dropped. What concerning the expectations of the second crisis wave the correlation dynamics shows us the following. In 3 of 6 cases the correlation in 2011 did not rise. All these 3 cases include correlation with Chinese market that behaved very untypically in 2011. All other cases confirm the correlation increase thus supporting the idea of approaching shock that in our case can be the second crisis wave. If we take China as an exception rather than a rule then we can the by and large accept the general case or correlations increase. Hence we can again predict the increased volatility at least though final and definite conclusion requires much wider data array and countries set.

Eighth, seeking for liquidity during the crisis foreign residents were actively selling their Ukrainian portfolio assets in 2008 and 2009. The post-crisis recovery came rather obviously in 2010 when foreign residents invested 4334 million USD in Ukrainian assets but still having not achieved the pre-crisis level of 5782 million USD. The figure for the first six months of 2011 is 3008 that is pretty high and looks like exceeding the previous one in the year end. The 2009-2011 period shows clear signs of post-crisis recovery.

The portfolio investment flows structure shows that foreign assets' of Ukrainian portfolio investors structure changed during the crisis and after it in the direction opposite to that one observed for the global market. Instead of decreasing the share of equities jumped up a little in 2008 and in 2009. And then it dropped in 2010 and 2011. Liabilities structure as well changed oppositely to the global market trend. In 2008 and 2009 the share of equities increased. Such unusual behavior can be explained by the following reasons. The crisis brought about the global shift in the geography of international portfolio flows. Seeking for lower risks with low and negative returns being observed everywhere investors moved to less developed markets. Actually Ukraine was not very popular from this very point of view. It was rather not so favorable to attract investment than to promote their structure change. And this is the second reason. The risks of default on debt securities (even sovereign and guaranteed) rose so high, that even high traditional risks of stock became more acceptable for foreign investors. Thus many of them preferred to invest rather in risky Ukrainian stocks than in highly probable defaultable debt papers. The shift from debt securities occurred particularly because of the permanently unstable political situation that makes sovereign papers totally unacceptable for foreign investors. All this means that Ukrainian market substantially differs from the global market from the point of view of the portfolio flows structure. Thus the typical methods and approaches to global market analysis can slightly be used in Ukrainian realities.

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REGIONAL AND LOCAL CAPITAL MARKETS IN A MODERN WORLD

1. The high mobility of capital, as a result of internationalization and globalization.

We have lived already a little more than a decade in the XXI century. and all this time most of us even have not noticed how many people, regions, states and the world as a whole have become, as to say more closely tied together, more integrated into this process of unification, globalization. We perceived it as something ordinary, that was happening without our participation and had no significant impact on our daily lives, but that was a false perception. All political, social, economic and cultural development of our world, especially in the period of the 1980s had been occurring in the light of globalization.... Its economic component associated primarily with the sources, factors and forms of economic development. It is about capital flow, investments, workforce, technology, intellectual resources and about management and marketing. There took place growth in international trade and investments, also the process of diversification of world financial markets and the workforce reached unprecedented proportions. Substantially increased the role of MNCs in global economic processes, global competition became a new, more active and sharpened character, appeared a system of global strategic management. So, let’s consider the globalization, its main characteristics and features as the socio-economic process.

Globalization - the product of the era of postmodern transition from industrial to postindustrial stage of economic development, forming the foundations of the new period of our civilization where the main value will be knowledge, or as some scientists call it - noosphere and space era. The qualitative and quantitative traits and indicators of the deployment of this process therefrom. Among the most important should be called the growing interdependence of economies of different countries, increasing the integrity and unity of the world economy also increases the threat of global nuclear catastrophe, the onset of the greenhouse effect, interference with nature through genetic engineering, cloning and more. The growth of new global communication networks through the introduction of advanced information technology, electronic communication systems leads to the implementation of many of them outside state control. Modern

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scientific and technological advances lead to reduced costs of international and intercompany business contacts. Thus, if the 1 minute call between New York and London in 1930 cost $ 100. Now it is about $0.5. Until recently a special dynamism characterized the "new industrial countries" of Asia and some Latin American states. Has been developed a tendency to form a global civilization with common tastes, values and social consciousness also has been created the structure of global elites. The growing westernization of world cultural space and the opposition to this process, especially from Muslim countries.

At the forefront of world economic life put forward new subjects of the global economy processes, along with traditional are now key. There are 8 of them:

- international organizations (IMF, World Bank, UNCTAD, FAO, ILO, WTO);
- countries ‘Group of Eight ‘;
- regional organizations, which about 60;
- multinational corporations (almost 50 thousand);
- institutional investors (pension and investment funds, insurance companies);
- non-governmental organizations;
- major cities;
- some prominent personalities (scientists, Nobel laureates, university professors, famous financiers, entrepreneurs and others.).

Someone may ask, do those big cities provide such a great impact, which should be considered as a separate subject? On the meaning of big cities it is enough to recall that in Tokyo they produce twice more goods and services than the whole Brazil, moreover the capital city of Japan is so large that it is not oficially called a “city”, but an “administrative capital district”. That’s why in my opinion the right of big cities to be in this list should not be denied. The economy is globalizing because of the emergence of new forms of competition, when a growing number of entities of the world economic relations has no nationality. Thus, globalization becomes a permanent factor in both domestic and international economic life.

There are two main approaches to stages of economic globalization. According to the first, it started even before the period of great geographical discoveries in the form of sluggish fluid globalization when economic relations between states were sporadic and had a discrete character, limited to certain local areas and territories. By the mid-nineteenth century globalization becomes a slow progression of the stage when emerging global market, growing international division of labor, emerging profile of specialization of individual countries and regions. The next stage (mid-nineteenth century - 80 years of the twentieth century) was named structural globalization, which is associated with economic redistribution of the world, the collapse of the world economy in opposing systems and its confrontation. The second approach links the genesis of globalization in the last quarter of the twentieth century. When it becomes the determining factor for both national and international development, becomes the dominant trend of world economic processes.

International division of labor and the international socialization of production are finding its expression in international specialization, cooperation, combination, concentration of production and so on. These processes form an important element of the economic mechanism on an international level. Development of partial division of labor occurs both within the national states and internationally through the market and beyond-market relationships between companies that produce products mutually. In this regard, in the process of international socialization of production are developing constant and close ties between companies that are co-operating. And it little depends from the process of goods exchange in the world market. About sustainability and growing dynamism of these processes show evidence of increased parts, assemblies and components in total imports of machinery and equipment in developed countries. All this testifies to the Act of internationalization of production, its varying intensity in certain regions of the world economy, it expresses the process of transformation of productive forces and economic relations, the boundaries of a national countries and their gradual internationalization in each of the spheres of social reproduction (in direct production , exchange, distribution and consumption).

To give space for the application of this law, should first create the appropriate conditions:

1. the presence of a developed credit system and stock exchange
2. Place of a country in world economic system, economy and its monetary and economic conditions
3.moderate tax burden
4. preferential currency legislation that opens up to foreign borrowers, stone access to the national market of money and capital and foreign securities - to the commodity exchange price
5. good geographical position
6. relative stability of the political regime

These factors limit the range of domestic money and capital markets engaged in international operations. As a result of competition appeared global financial centers - New York, London, Zurich, Luxembourg, Frankfurt am Main, Singapore and others.

Internationalization circulation (external)

The effect of the internationalization of production organically related to the processes that take place on the world market, including internationalization of the market. In trade, acts the "law" of the accelerated growth of foreign trade compared with the growth of production, so for the period 1966-1981 the growth of international trade was 5.2% annually, which is 1.5 times faster than production. The "law" of the internationalization circulation expresses the gradual internationalization of the process of buying and selling goods and services within the regional economic associations and the world economy and formation of the international market relations in the sphere of circulation. Rapid growth of world trade is an important factor in the growth of industrial and agricultural production, development of scientific and technological progress, efficiency and quality of production, increased competition on the international arena. This competition, in turn, contributes to reducing the monopoly and lowers commodity prices on domestic market. In the U.S., as you know, about 74% of industrial production is undergoing external competition. In areas where no such competition and protectionist measures are protecting businesses from foreign competition, consumers have to spend much more money for the purchase of local goods. Let's take as an example protectionism for the U.S. footwear industry will increase prices by more than $ 60 billion annually or more than $ 1 thousand per family of 4 persons within 1 year.

2. Actual features of the interregional capital movements.

Interregional movement of capital - is the movement of capital between the regions in search of more lucrative field of application.

Export of capital is a unilateral migration of capital from one region to another, targeting to receive benefits. Exports of capital can be classified as follows:

1. Export of business capital - a long-term foreign investment on the period of 1 year
2. Export of loan capital - refers to the international credit relations and acts in the form of the international credit.
3. International economic assistance - a provision of capital in cash or goods form by the subjects of one country in another country's subject ownership under terms of free of charge, no return, means no refund.

Entrepreneurial investments are divided into:

- Direct investment, mainly in stocks of industrial, commercial, banking enterprises, plantations, etc., providing complete control over the activities of an enterprise;
- Portfolio that does not formally provide their owners complete ownership and system control.

International economic assistance has two forms:

- Financial support - is to provide funds in the form of free credit or no refund financing by the subjects of one countries to the subjects of another countries for certain social, economic and technical projects.
- Financial aid - is free of charge transfer by the subjects of one countries to the subjects of another countries of products and services for industrial and domestic purposes.

The advantage of direct investment for an exporter of capital in comparison with other forms of investments linked to the fact that it fully manages its capital during the period of direct investment, while the loan capital for the entire term of the loan becomes fully available to the importer..

Today export of capital more often takes form of patents and licensing export for new scientific and technological developments, inventions and innovations. Major exporters and importers of patents are U.S., Japan, Switzerland, United Kingdom, Netherlands, Sweden, Germany. Investments in science and technology are profitable that's why monopolies invest large capitals both domestically and abroad. . Growth of exports of patents and licenses is linked also with strengthen of integration processes and interstate binding of capital. Interregional migration of capital started actively develop yet in the making of the world economy and gradually turned into a crucial feature of modern international economic relations. . Growth of exports of patents and licenses is linked also with strengthen of integration processes and interstate binding of capital. Interregional migration of capital started actively develop yet in the making of the world economy and gradually turned into a crucial feature of modern international economic relations.

With regard to the purposes of export of capital, they can be reduced to the following four groups:

- desire to control the activities of enterprises of the local market.
- a business profit.
- receive interest on loan capital.
- desire for a long period to ensure the satisfaction of their economic, political and other interests in the territory of a country.

Direct investment from the region in the economies of other countries by economic activity at the end of 2010 amounted to 1916.2 mln dollars U.S., namely in light industry (textiles, for industry, tailoring, manufacture of leather and leather shoes) 26.2 mln $, and engineering (production of machinery, electrical, transport and electronic enforcement equipment) 1890 mln $.

The benefits of capital imports:

1. Getting new technologies at relatively low costs.
2. Relatively rapid development of production.
3. Improved classification of employees.
4. New jobs.
5. Expansion of export development services, acquisition of foreign expertise in management.
6. Replenishment of the national budget.

Harmful side of imports

1. Possibility of export of the raw materials.
2. Foreign interference in domestic banking.
3. Capture foreign capital key areas of the economy.
4. Removal of the hidden form of profits from the country.
5. Some loss of political freedom.

The world market of loan capital - is a system of relations of accumulation and redistribution of debt capital between countries, through a combination of demand and supply for loan capital by debtors and creditors in different countries.

The economic structure of world capital market:

Global money market - providing short-term loans mainly for service of international trade, and acts as deposits. The capital market is formed in organic connection with the development of national and world economy as well as credit system. Capital market goes beyond the individual countries and as an important component of world economy plays a significant role in the creation of new regional economic systems, maintains the structural changes in economy, serves the foreign trade, export of capital, international payments. The global capital market creditors and borrowers act mainly as large multinational firms, states and banks, governmental municipal authorities, IMF, World Bank, EBRD.

Basic indicator for capital market is the interest rate. The structure of interest rates includes discount rates, interest rates, interest rates on loans, treasury bills, interbank rates "LIBOR" and others. Interest rates of national and international markets are interdependent. National capital markets are influenced by fluctuations in economic conjuncture and economic policies of governments. Government influence on the capital market takes the form of intervention purchases and sales of securities and by the means of credit policy: setting the central bank discount rate, identifying the amount of bank reserves. In periods of economic boom and inflation, the government, as a rule, increases the discount rate, which leads to reduced demand for capital. It should be for-note that although the export of capital abroad is often more profitable to the side that exports, it also interests countries in which the capital is imported, since they receive an inflow of money resources, which of course has to be paid out of the future income.

A very significant part of the inflow of foreign capital accounted for direct investments, which are the most complete form of inclusion in activity in the foreign market with the help of creation of one's own means of production and even businesses. Export of capital affects the economy of the countries exporting and importing capital. In exporting countries export capital distract from domestic investment significant resources, slows the development of their productive forces. In countries that import capital, continue developing raw material and commodity industries. Export of capital is being primarily made in economically underdeveloped countries which is as a result of lack of equity, low land prices and raw materials, low-wages makes the rate of return much higher there than in the countries of the developed capitalism.

The main directions of development of capital markets in Ukraine to date are:

1. The growth of portfolio investment
2. Solvation of the problem of conceptual definition and structuration of the financial intermediaries and their activities. Their purpose is directing the movement of capital to the most efficient users. Financial intermediaries help reduce the risk of investment of small savings, providing them constant incomes.
3. Attraction to participate in the market of state loans of non-bank financial institutions, especially insurance companies and pension funds.
4. Expansion of the network and ensure efficiency of work of joint investment institutes, es-

pecially investment funds. Their purpose is accumulation of significant capital, first of all, free money of households. They can become the main suppliers of investment resources, creating a good competition to banks.

Developing these areas, subject to specified conditions, the Ukrainian capital market will get more dynamic perspective and ensure proper development of the national economy.

3. Regional and local capital markets under uncertainty.

At the time of the global financial crisis investment firms were forced to reduce seriously their investing activity. As a result, the competition for financial resources on the international capital market has been seriously deteriorated. Many experts decided to find out from the leading investing companies in the world, in what projects they are willing to invest their money and what sectors of economy may count on the attention of investors.

Global financial crisis of 2007 negatively affected all types of investments. Reduced profitability of transnational companies, due to recession in the countries of basement, led to the outflow of capital from their foreign subsidiaries and the collapse of investment programs to acquire new assets under expansion programs to local/international markets. Difficult economic conditions and uncertainty in the target markets forced the top management of most companies to focus on improving the operational efficiency, while pushing into the background tasks related to development of business. As a result, the hardest hit took the market of merges and acquisitions (M&A), the volume of which in 2009 totaled $ 1.97 trillion., 32% less than in 2008 (minimum figure since 2004).

In 2009, Chinese companies came on the second place in the world for the money spent on acquisitions of foreign companies ($ 45 billion), beating the Europeans in this index. U.S. companies kept their championship, having spent for the purchase of foreign assets $ 94 billion. The amount of cross-border M&A in 2009 was about $ 528 billion - minimum since 2003.

M&A transactions have brought investment banks in 2009 - $ 18.9 billion, a 46% lower than in 2008. Revenues from M&A operations made for banks not more than 27% of total amount of received commissions, and the main source of revenues were profits from mediation in organizing the placement of equity - $ 24.9 billion, or 36% of total revenue from brokerage operations. The failure of private companies to find resources for lending and business support which strengthened by further devaluation of some national currencies, forcing governments to spend more money to support the business. This led to the fact that the M&A market was a new active asset purchaser - a state. According to preliminary calculations of the leading analysts, M&A transactions involving the state capital in 2009 amounted to about 12% of the total world market. And it is - a record figure for the whole story. Much of the M&A transactions connected with attempts of the government to mitigate consequences of severe financial situation of large corporations, bankruptcy of which could cause a new wave of panic on financial markets and further deterioration of economic situation. This government support is focused mainly on the banking sector (e.g. the UK government has increased its share in The Royal Bank of Scotland to 84.9%, having invested $ 41.8 billion). Among the major transactions in other industries, one can see the participation of the U.S. government in rescuing of General Motors and the insurance company AIG.

In 2009, lending liquidity problems led to the fact that companies were more likely to involve capital through additional emission of shares, resulting in a volume of secondary offerings broke all records: the total amount of such placements in 2009 was $ 689 billion, representing 77.5% of the total placement and is an absolute record. The amount of the IPO in 2009 totaled $ 107.5 billion, which is 11% more than in 2008. While the IPO market in 2009 was able to avoid long-term records of minimal activity only through the fourth quarter since the beginning of which the company conducted an IPO on a total of $ 32.5 billion, more than the first three quarters together ($ 25.7 billion). Whereas in the late 2009 in preparation ("in the pipeline") were more than 430 IPO totaling $ 73 billion, one can only hope that the market will continue to recover in 2010. As a result of placements that have occurred, Asian stock exchange to the end of 2009 has passed confidently the former leaders - LSE, NYSE and NASDAQ. In the third and fourth quarter of 2009, the maximum amount of placements were in Shenzhen and Hong Kong Stock Exchanges - Asian companies during this period had IPO at $ 32 billion, which significantly exceeds the total amount of IPO by the European and American companies together ($ 20.7 billion).

As for the foreign direct investment, according to the assessment of UNCTAD, which was published in the quarterly monitoring of global investment trends, their volume in 2009 has decreased by 39% - to $ 1 trillion. It is worth of saying that this reduction of investment has affected all types of economies. Investments in developed countries in 2009 decreased by 41% (to $ 565 billion), in developing countries after six years of uninterrupted growth - 35% (to $ 406 billion), and into the transition economies - 40% (up to $ 69 billion).

The crisis has also changed the global investment landscape: in 2008 the share of transition economies, which are developing, in the total flow of capital has increased by 17% (43% of the total or $ 621 billion) and the share of developed countries fell by 38% (57% of the total, or $ 962 billion). In 2009, the share of countries in transition, developing countries increased to 46%, while developed countries have decreased by 4% to 54% of the total volume of foreign direct investment.

Investments rates are currently restrained by the uncertainty in the target markets and financial problems of investment companies. According to the "Global Capital Markets Survey" conducted by Appleton Mayer in the period from 10 to 24 May 2010, perspectives of recovery of investment activity in scope of direct investment are still disappointing. 51% of the managers of investment companies have noticed the deterioration in the target markets. Thus 50% of respondents said that in the next 6-12 months plan to stop investing in new projects, concentrating their attention on the current investment portfolio. Among the reasons that forced investment firms to abandon investment in new projects, 37% of respondents mentioned uncertainty in the target markets, the lack of available investment resources (33%) and problems with financial stability and liquidity (24%). 56% of companies that soon shall stop investing in new projects, are planning to restore their investment not less than 6 months and 24% - not earlier than one year. Among the factors that will play a key role in making investment decisions in the next 6-12 months, considering the current situation, respondents named: the presence of projects that can generate stable cash flow (55%); stable conditions of economic recovery and business (54%), domestic market size and dynamics of its development (44%), stable investment climate (38%) level of economic freedom (35%), the dynamics of prices on resources (29%).

One shouldn’t forget that except the economic problems, in our globalized world the others not less important problems are exist. That without any doubts would impact the life’s of all people. I mean the world food crisis, loss of which in the world economy is approaching $ 1 trillion, recently provoked increasing interest of investment firms to agriculture and food industry. Confirm these trends and poll results. Among the sectors in which it makes sense to invest, considering the current situation, 42% of respondents named the food industry, and 41% - agriculture. During 2005-2008 world food prices increased on average by 83%. As reported in the report of the Food and Agriculture Organization, in the beginning of 2008 the world prices for most food commodities reached their highest level in 50 years. Dynamics of global food price index # 015 shows a sharp jump in prices for agricultural products since 2006. The second wave of growth in prices began in 2009. In December 2009 the FPI index reached a maximum year mark - 172. One of the main reasons for rise in agricultural products is growing world population and the consequent consumption of food. It is expected that the number of inhabitants on Earth from the current 6.5 billion people could rise more than twice. In addition, every year people in the world want a higher quality of life and consume more and more proteins. For example in 1989 the average Chinese person ate 15 kg of meat a year now - 51 kg. This trend directly affects the consumption of grain, because production of one kilogram of meat requires eight pounds of grain. Another reason is the rise in the growth of biofuels. Grain, particularly corn, for biofuels significantly influenced the growth of world prices for grains. For example, since 2005 the cost of corn has increased more than twice when the U.S. adopted a law to increase the use of ethanol fuel ("Energy Bill", Energy Policy Act of 2005). This caused a rise in prices not only for corn but also for sugar cane, soybeans, wheat, because of the growing demand for biofuels makes farmers to reduce the area under food crops and redistribute them for fuel crops. The increase in grain prices caused a rise in prices for meat, dairy products, poultry and eggs. As a result, focus on biofuels has made a considerable contribution to the growth of food prices not only on the local markets but on the global as well. An important factor is the annual reduction of lands suitable for growing crops, as a result of natural disasters and soil erosion caused by global climate change. "Agricultural production in the next 3-5 years will be the best investment" - said in one of his interviews Oliver Kratts, the head of the New York unit of Deutsche Bank, which manages assets of $ 10 billion ($ 3 billion of which fall on investment in agriculture). Considering the current situation it is really valuable advice. There is also worth of noting the investor's interest in areas with less cyclical nature and economic sectors that continuing to show a dynamic growth (telecommunications, pharmaceuticals, food industry). As for the sectors most sensitive to business cycles (automotive, metallurgy, chemical industry), in the short term we should expect a substantial reduction in investment flows in these sectors.

It should be noted that in May 2010 compared with December 2009, by 40% increased the number of investors who find medium-term (5 years) investing as the best option. The choice in favor of "longer" time horizon investors are forced to do because at the moment there are limited opportunities for a "fast" (speculative) projects. That is why investment firms re-orientated on medium and long-term projects that guarantee to investor a stable cash flow. But among investors there are still remain more priority to the projects aimed at a short-term (up to 1 year) period.

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Volodymyr Shevchenko*

POST-CRISIS GLOBAL REBALANCING AND INTERNATIONAL CAPITAL FLOWS

***Summary**. After the global crisis, developed and emerging economies have to re-balance accumulated imbalances, which are interconnected with the international capital flows changes.*

Capital flows are driven by the number of factors, have contradictory implications, they inter-relay with pre-crisis and post-crisis global imbalances. Capital flows changes are influencing on the global re-balancing, should be considering while assessing a probability of financial crises in a future.

Key words: international capital flows, capital flows factors, capital flows structure, global imbalances, post-crisis rebalancing, capital inflows, capital outflows.

Ключові слова: міжнародні потоки капіталу, фактори руху капіталу, структура руху капіталу, глобальні дисбаланси, пост-кризове ребалансування, приплив капіталу, відплив капіталу.

Introduction.

Global crisis rapid spillover in 2008-2009 some researchers have explained as result of deeper international financial integration and cross-border capital flows. In post-crisis time international capital flows are changed in developed and emerging economies.

After financial crisis the global economy and financial markets does not show clear signs of restoring economic and financial balances, stable growth. Post-crisis picture looks like a complex interaction of the double- or multi speed recovery, global imbalances, sovereign debt and budget crises, commodities and asset prices volatility, structural changes of international capital flows. This requires to study the post-crisis specific of financial globalization, capital flows changes, international contagion, mixed trends on financial markets, prospects of financial stabilization or future financial crisis.

The research aim is to study the link between international capital flows and post-crisis rebalancing. The last is playing a systematic role in more sustainable economic growth and fi-

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nancial stability. The objective is to estimate the current factors and trends of international capital flows and their influence on the post-crisis rebalancing. The selected relevant case is to study structural changes in the international capital flows to transitional economies, specifically to Ukraine as a one of most affected by crisis in Central and Eastern Europe.

Research methodology and results.

The research methodology is based on the application of international macro- and micro-economic approaches in line with structural comparative analysis. A study is focused on factors and structural changes in international capital flows with respect of their implications on post-crisis re-balancing.

A complex nature of factors, structure and impact of international capital flows attracts a growing interest in modern research literature. Many scholars notion that the pure economic factors like marginal profitability of investing capital abroad or deficit of domestic investments may not be judged as a comprehensive explanation of cross-border capital flows. Some researches are focusing on the inter-relation of various factors of capital flows as well as mixed impact of capital inflows and outflows. Among known hypotheses are "Lukas Paradox" noted that high profitability of foreign capital in developing countries featured along with relatively low capital inflow to them due to the recipients' countries' institutional weakness [13]. Another is "Trilemma" argued by Obstfeld/Taylor and focused on contradictory co-relations between exchange rates regimes, capital flows and monetary policy [14,15]. Capital flows reversals during crises has been named as "sudden stop" - unexpected switch from external capital inflows to their outflows [5,6].

A focus in noted research approaches is on the systemic causes of the structural changes in international capital flows and their global implications.

Capital flows, exchange rates, financial assets value and monetary policy stays as key drivers of the international financial markets. The last global crisis has shown that international financial markets fluctuations were interrelated with changes in cross-border capital movements.

International capital flows are forcing financial integration and globalization. But they threatened by global imbalances featuring during last two decades.

Global imbalances are considering in many researches as opposite current accounts balances of different countries: 1) permanent current account negative balance in USA and developed Europe and positive balance in oil-exporting and export-led emerging economies; 2) related concentration of foreign exchanges reserves in emerging economies [1]. Current account imbalances reflecting trade surpluses and deficits, but they are influenced by de-facto fixed exchange rates in many export-oriented countries. Such interpretation of global imbalances is focusing on the fact that export-led countries accumulate excessive foreign currency stocks and their currencies exchange rates accumulate revaluation potential. Imbalances, currency reserves and financial assets accumulation are leading to growing capital outflows from oil-exporting and emerging economies.

Negative current account sets a deficit of foreign currency and makes pressure on the domestic currency devaluation. Such effect may be offset by positive capital account such as foreign direct and financial investments net inflow.

Current accounts deficit in the USA and other industrialized countries stimulate capital inflows in order to keep external and monetary balance. So US and many other developed countries are net importers of capital.

US dollar position as a leading currency of global trade and financial markets enforce the holders of dollar assets to invest the American economy. A large part of the emerging economies' official reserves are denominated in US dollars, they are pledging into US government securities and other assets, constitute a capital inflow to the US. Growth of sovereign wealth funds (SWF) – government-sponsored investment institutions accumulated governmental financial liquidity in oil exporting and Asian emerging economies – is directed to the similar purpose to pledge the excessive financial liquidity into developed countries assets. Excessive liquidity stimulate capital outflow and investing into US securities, Eurobonds, internationally quoted shares and other liquid financial assets.

External financial imbalances in many countries were emerged due to the substantial changes of financial assets and liabilities value during financial crisis, which lead to re-composition of the countries' international investment position. Another dimension of external financial imbalanced was rapid accumulation of the government and corporate external debt during the crisis. It was primarily due to the governments emergency spending for the financial and banking systems bailing-out, financial institutions lending for restoring liquidity, banks shares acquisition and "infected assets" holding by the governments. Financial imbalances influencing on the changing patterns and composition of the international capital flows.

Fiscal imbalances and budget deficits in many developed and transitional economies have been resulted out of opposite causes – drop down of budget revenues during the crisis and government's extra expenditures for managing crisis impact. External borrowing was used widely for financing budget deficit and lead to raise of sovereign debt in many countries.

Therefore global imbalances, external financial imbalances and fiscal imbalances accumulation during the crisis as well as post-crisis rebalancing are relating to the international capital flows.

International capital flows have different components such as foreign direct investments, portfolio investments, other private flows like bonds and long-term loans. Each of them has specific factors and trends. But some common, systemic factors and features are becoming more obvious during last decades due to markets liberalization, cross-border liquidity movements, financial integration, hybrid financial instruments and innovations. For example, traditionally a cross-border mergers and acquisitions (M&A) statistically are reported as a form of foreign direct investments (FDI). In fact a cross-border M&A financially could be structured as a direct cash purchase of a foreign company, international bank loan for a foreign corporate shares purchase, cross-border shares swap, pledging shares to specially create international holding company in third country and others.

Structure of capital flows becomes more flexible and financial infrastructure allows better conditions for financial liquidity. Major international financial markets are increasingly integrated and interdependent.

Therefore the cross-border capital movement structure is characterized not only with concentration, internationalization, competition but with systemic features such as integration, volatility, co-movements and substitution of different types of international financial flows.

A complex structure, systemic features and implications of international capital flows requires to use not only traditional profit-measured and institutional approaches, but to apply a multifactor analysis – to identify major factors of international financial flows, their structure and trends, contradictory implications of capital inflows and outflows.

International capital flows have different factors, risks and implications. It means that cross-border capital flows as well as financial markets movements are resulting out of combination of different factors:

1) Global factors
2) International contagion

3) Domestic factors

4) Internal volatility of capital flows

First group of factors - global factors – constitute global economic environment, international financial environment, financial liquidity and interest rates, global financial risks.

Post-crisis global economic environment is characterized with the pace and stability of economic recovery. Restoring of pre-crisis levels of the economy and growth rates are most important for financial markets stability. The economic growth determines a countries' demand for external financing and capital inflows, which influence on post-crisis re-balancing,

Dual-speed or multi-speed economic recovery are considering by international organizations and researchers as post-crisis phenomena [7]. Advanced economies are having low or moderate growth rates along with excessive sovereign debt and large unemployment, which could be considered as "weak" or "fragile" recovery. While emerging economies demonstrates much higher growth rates, increasing official reserves and financial assets, but some of them are looking "overheating", have speeding inflation and banking systems problems.

Economic growth differences makes capital flows re-direction in two major aspects – steady inflows to emerging markets and increasing outflows from them.

Global financial liquidity composition and value is other global factor of cross-border capital flows. The current trend is a relocation of financial liquidity from global financial centers to

<table>
<tr><th></th><th>Січ-07</th><th>Лют-08</th><th>Лют-09</th><th>Бер-10</th></tr>
<tr><td>LIBOR</td><td>5.4%</td><td>2.38%</td><td>0.99 %</td><td>0.87 %</td></tr>
<tr><td>EMBI+</td><td rowspan="2">122</td><td rowspan="2">2024</td><td rowspan="2">1005</td><td rowspan="2">468</td></tr>
<tr><td>Ukraine</td></tr>
<tr><td>Sovereign rating</td><td rowspan="2">BB-/Positive (25.10.2006-14.05.2008)</td><td rowspan="2">BB-/Negative (25.09.2008)</td><td rowspan="2">B-/Negative (12.11.2009)</td><td rowspan="2">B-/Stable (17.03.2010)</td></tr>
<tr><td>FITCH</td></tr>
<tr><td>UAH/USD</td><td>5-Тра</td><td>Лип-56</td><td>Лип-98</td><td>Лип-92</td></tr>
</table>

emerging economies. The last are becoming an important source of capital outflow directed both to developed and developing economies. International liquidity volume and structure, stock exchanges indexes, financial assets value, exchange rates composition of financial assets are changing permanently in response to global and national factors. They are influencing financial markets volatility and investors preferences, provoke large-scale speculative movements of finance between different segment of financial markets and countries. Its especially affecting export-led and emerging economies which are sensitive to the changing conditions of global markets.

Table 1.

Major international benchmark conditions of external financing for Ukraine, 2003-2010

Source: National Bank of Ukraine, Fitch Ratings, IMF Data and Statistics.

In case of Ukraine a situation before crisis looks as combination of high benchmark rates on international financial markets (such as LIBOR) and improving sovereign rating trend resulted in positive markets perceptions, relatively low spreads and favorable conditions for attracting external financing.

But after crisis the combination of external and domestic factors have changed – low LIBOR

	2006	2007	2008	2009
USA	7,96	8,05	5,09	3,25
Canada	5,81	6,1	4,73	2,4
UK	4,65	5,52	4,63	1,63
Italy	5,62	6,33	6,84	4,76
India	11,19	13,02	13,31	12,19
China	6,12	7,47	5,31	5,31
Russia	10,43	10,03	12,23	15,31
Ukraine	15,47	13,9	17,49	20,86

and stable investment grade sovereign rating were accompanied with higher markets risk expectations, tightening lending conditions and therefore higher then before crisis interest rates for Ukrainian borrowers.

Differences of interest rates on national financial markets remain an important factor of cross-border financial inflows. Interest rates and currency risk are taken into account for medium-term cross-border interbank loans, private flows such bonds and lending facilities for financial and non-financial corporations. Post-crisis changes of interest rates are reflecting a controversial picture in different countries.

Table 2.

Lending conditions of domestic banks for typical borrowers in pre-crisis and post crisis time in selected countries, weighted average interest rates in national currency 2006-2009.

Source: World Bank statistical database -// Electronic source: http://data.worldbank.org/indicator/FR.INR.LEND

As it appears from the data, post-crisis interest rates have fail substantially in developed countries, for example in USA, UK, Canada, Italy as result of central banks monetary policy and historically low refinancing rates. It would improve lending conditions for economic recovery and financial institutions liquidity. But in many emerging economies when central banks lowered refinancing rates, it have not effected lending rates. Examples of India, Russia and Ukraine show post-crisis increase of interest rates which reflects countries' remaining risks, resulting from the large crisis fail of GDP, domestic currency volatility, institutional weakness and structural problems. Higher interest rates in many emerging and developing economies played a negative effect but were accompanied with higher rates of economic growth.

Interest rates are driven by national financial markets macroeconomic and monetary conditions, rates differential influence on the cross-border private flows with respect to the global and national markets risks.

Global risks are influencing on the international commodities and financial markets condi-

	Чер-05	Чер-06	Чер-07	Чер-08	Чер-09	Чер-10
CDS outstanding	10211	20352	42580	57403	36046	30261

tions and volatility. Global risks impact on the international financial flows depends on the financial institutions capability to hedge or to offset risk using risk-taking and risk-mitigating financial innovations.

Such innovations rapid spread since early 2000-th have encouraged a financial institutions risk appetite, large increase of risky domestic and cross-border lending, lead to asset prices boom in developed countries, have provoked global credit crunch and financial crisis in 2008. One of such instruments – credit default swaps (CDS) – provides to lenders an insurance protection for the debt outstanding repayment in case of the borrowers' default.

Table 3.
Credit Default Swaps (CDS): outstanding amounts on the international financial markets, Billions of US Dollars

Sources: BIS Quarterly Review. December 2007. - BIS, Basel 2007. A103; BIS Quarterly Review. December 2010. - BIS, Basel 2010. A121.

As to BIS data, CDS volumes have been increased dramatically before the global financial crises and reached an amount of 57 trillion US dollars in 2008 slightly below the global GDP value. The CDS increase did allow international banks to hedge a larger volume of credit risk and therefore to ease a credit conditions. It feed the credit boom and asset prices bubble in 2002-2007 which were important causes of global financial crisis. After crisis the CDS volumes downsized almost at twice and it become a factor of tightening international credit conditions.

Such situation helped to re-balance demand and supply of credit internationally as well as put on stronger requirement to effective allocation of financial liquidity. But at the same time it limit access to external borrowing for post-crisis recovery and modernization especially of transitional economies such as Ukraine.

A contagion is covering a second group of factors of global crisis, post-crisis sovereign debt crisis and post-crisis rebalancing. Contagion nature could be explained as result of international financial links and financial integration. Capital flows and global financial integration push up international financial links in various forms – accumulated FDI, financial assets cross-border holdings, international bank claims, global financial centers flows, global payment systems, international financial exchanges and others.

Integration and financial linkages led to growing interconnectedness and interdependence of financial markets and institutions, which in turn makes possible to generate contagion effect while some national markets are getting into high volatility or crisis.

An effect of contagion is mostly obvious in the times of crises, but a nature of contagion has a broad interpretation in researches. Sometimes a term "contagion" is using as a synonym to other term – "spillover' – meaning a spreading of some market signals, products, innovations, technologies across national borders.

Contagion could be considered as a specific mechanism of cross-border transposition of the national or international financial markets trends, fluctuations, risks, financial assets value change, exchange rates change to other national financial markets or other segments of international financial markets. For example, in case of large unexpected value change (beyond of normal market volatility) of internationally quoted shares or bonds this will effect not only their issuer, but also owners, holders and traders in other countries, international exchanges.

The extent and effect of contagion are driven by the international financial links, financial integration, country international investment position, geographical location and foreign financial markets exposure, external debt and servicing capacity.

Domestic factors constitute a third group influencing on the international capital flows. They represent macro- and micro economic fundamentals such as growth rates, inflation, exchange rates regime and volatility, fiscal and monetary balances, current account of BOP, country investment climate and access to finance.

Capital flows internal volatility representing a fourth group of factors of the international capital flows, influencing on their structure and dynamics. Internal volatility covering a factors, which could be considered as systemic causes of changes in capital flows arising out of the structure of capital flows. Major factors of this group are: capital inflows and outflows asymmetry, net balance of capital flow, balance of payments capital account structure, external financial shocks, "sudden stop" of capital inflow.

International capital flows have played a significant rope in origination of pre-crisis imbalances, injection and spillover of global financial crisis of 2008-2009.

Global financial crisis originated out of set of economic and financial asymmetries, excessive market risk-taking and accumulated financial imbalances. Major of them have been:

- credit boom in major developed countries in 2003-2006 and related increase of the international bank claims;
- asset prices of the major financial markets and real estate prices boom;
- rapid increase of structured financial products based on securitization and their cross-country holdings;
- financial and credit risk hedge instruments increase which softened lending conditions.
- risk international accumulation with cross-country holdings of structured financial instruments.

Scheme 2008-2009 global financial and banking crisis could be represented as growth of trade, financial and fiscal imbalances and crisis as a way to restore the balances:

- liquidity excessive growth, financial and credit boom: money and credit expansion, assets value growth, consumption growth.
- finance and economy overheating and imbalanced
- correction of finance - asset value and share prices drop, currency devaluation, loosing market confidence, loosing liquidity, bankruptcy
- financial crisis impact on economy – borrower's defaults - less credit supply - slowdown – recession.

Cross-countries spillovers have channeled global crisis impact on the national economies and financial systems via generating external shocks through foreign trade and financial channels. External shocks, asset and commodities prices contradictory movements have added to the global imbalances and volatility. All noted have influenced on structural changes in international financial markets and capital flows.

Therefore global crisis spillovers and capital flows have been asymmetric and affected developed, transition and emerging economies at a different extent and impact.

Post-crisis global rebalancing should cover the easing and bringing to fundamentals the following imbalances:

- Current account imbalances in order to keep currency reserves and exchange rates at the optimum levels and to avoid excessive over- or undervaluation of major currencies;
- Financial imbalances to downsize external governmental debt in developed countries and reserves accumulation in export-led economies;
- Fiscal imbalances to minimize budget deficit to GDP in developed countries increased as result of extra governments spending during and after crisis.

Current economic and financial trends are reflecting the specific post-crisis economic and financial asymmetries and imbalances such as:

- phenomenon of "two-speed" economic recovery as assessed by IMF – moderate economic growth in developed economies and much higher rates of growth in emerging and transitional economies, which leads to changes on international markets structure and volatility, balance of economic and financial powers;

- two-speed economic growth would lead to global economic shift and during current decade China potentially may overcome the USA by GDP volume;
- alongside with crisis the financial systems of the EU countries and the USA have accumulated large external liabilities, while the emerging Asia rapidly concentrating external assets and foreign exchange reserves;
- different economies could be able to reach pre-crisis levels of GDP at a different time and conditions, for example Ukraine would reach the pre-crisis GDP in 2012;
- banking and financial systems in many countries have been stabilized during the crisis with governmental financial support, but in post-crisis times it leads to accumulation of budget deficits, overlapping with large external debt in several European countries and the USA, which influencing respectively on the US dollar and Euro instability;
- post-crisis recovery have demonstrated the fragility of "catching-up" and "export-lead" development models for transitional economies and foresight a need for shifting towards fast modernisation and innovations;
- some developed and transitional economies obsolete infrastructure may become the major challenge for their economic development in a future because its modernization may require large investments.

Post-crisis international rebalancing could be considered as combination of market adjustments, regulatory measures and capital flows directed to easing the major accumulated imbalances and asymmetries:

- current account imbalances – negative in the USA and developed Europe and positive in emerging Asia;
- currencies exchange rates asymmetries to macroeconomic fundamentals and purchasing power parity, while some currencies are largely devaluated or revaluated;
- external assets and liabilities imbalances which are asymmetric in different groups of countries;
- fiscal and budget imbalances in major developed economies;
- excessive volatility on commodities and financial markets.

Pre-crisis, crisis and post-crisis global economic and financial imbalances are inter-related with the international capital flows structural changes .

Before crisis the capital flows have influenced the deeper integration and interdependence of global and national financial markets.

During the crisis such international interdependence and capital flows (including assets cross-listing and cross-holding, financial liquidity speculative movements) have played as spillovers of crisis and external shocks.

After crisis the international capital flows are influencing on post-crisis asymmetries and at the same time are playing significantly towards global rebalancing.

During and after crisis capital flows were interconnected with the major external shocks affected developed and emerging economies:

- combination of supply and demand shocks due to drop down of international trade of major commodities (steel, metals, oil, etc), quick shift of high growing to declining and stagnating prices for oil, steel, agricultural commodities, which generated large shifts in the flows of speculative commodities-linked capital on international financial markets;
- unexpected and substantial movements in exchange rates, which influencing on the terms of trade, international assets and liabilities value, domestic market prices, international competitiveness, investment attractiveness, outflow and inflow of capital;

- decreasing of market interest rates such as LIBOR as result of the central bank coordinated policy for extremely low basic rates, increasing monetary liquidity and support capital flows;

Year, Quarters	**2008 I**	**2008 II**	**2008 III**	**2008 IV**	**2009 I**	**2009 II**	**2009 III**	**2009 IV**	**2010**	**2011 I**
Current Account	-3362	-3313	-2078	-3710	-654	-181	-68	-878	-2884	-1300
Capital account	3527	5723	6058	-5754	-4571	-1865	-4834	-655	7914	2409

- large fluctuation of international financial markets indexes which causing deleveraging, influenced on the companies capitalization and borrowing capacities, terms of borrowing, structure of international capital inflows and outflows;
- international credit ratings large fluctuations, which are determine price and accessibility of international borrowing, foreign liabilities cost, international and domestic credit market conditions;
- international capital flows switches implies on the financial capital inflow-outflow balance, capital flight, balance of payments, exchange rates, economic activity.

External financial shocks are influencing the countries balances of payments and international investment position, foreign capital inflows.

Table 4.
Current and capital accounts balances during financial crisis, balance of payments of Ukraine, 2008-2009, quarterly, MIO US Dollars

Source: Balance of Payments 2009, 1 quarter 2011 (analytical form). – National Bank of Ukraine.

Current account deficit originated in 2006 as result of excessive demand for imports supported by high credit expansion and changes in terms of trade. Negative current account have been balanced by positive capital account mainly with large FDI inflow. In result it makes possible to increase official reserves and manage slight currency revaluation in mid-2008.

In the fall of 2008 export revenues have failed dramatically due to the international markets drops. Consequent corporate (financial and non-financial corporations) external debt servicing

Year, Quart.	**2008 I**	**2008 II**	**2008 III**	**2008 IV**	**2009**	**2010**	**2011 I**
FDI balance	2430	3091	3324	1058	4654	5759	867
Loans, bonds Balance	3247	4595	5516	-1045	-9137	6762	-242

problem put strong pressure on currency markets causing rapid devaluation of national currency. Balance of payment data shows the coinciding peaks of negative current and capital accounts in IV quarter of 2008 and reflecting the rapid switch from substantial inflows to large capital outflow from Ukraine since end-2008. Such switch is known as "sudden stop" of foreign capital movement, when net inflow is changing to reversal net outflow.

Structural changes of the international capital flows have been provoked by external shocks and financial assets value drops during crisis. Capital flows changes could be defined as structural due to the quick change to opposite/reversal movements as well as substantial change of qualitative and quantitative composition of foreign capital inflows and outflows.

Table 5.

Structural changes in capital flows balances during financial crisis in Ukraine, 2008-2009, quarterly, MIO US Dollars

Source: Balance of Payments 2009, I quarter 2011 (analytical form). – National Bank of Ukraine.

Major crisis-caused changes in capital flows would be considered as structural because they reflecting the substantial changes in value, composition, major forms and directions. For example, in Ukraine the FDI balance has dropped in 2009 for 54 % with continuing decline in 2010. Most severe fell affected the financial sector.

The long term loans balance switched from positive to negative due to: 1) new loans provision minimized; 2) accumulated loans servicing cost increase. In 2009 the overall trend of the government external debt increase have affected balance of payment and budget deficit, limiting the domestic consumption and economic growth.

Major crisis-caused structural changes in the international capital flows are:

- financial assets value dilution, increasing share of "infected assets" due to the international financial markets downturn and rising risk transfer cost;

- divestments – outflow of foreign portfolio and short-term investments due to the asset value decreasing, currency devaluation, investment losses;

- reversal flows – quick switch of net inflows to net outflows of the specific type of capital movements, especially as for short-term private capital flows;

- negative equity – drop down of the specific assets market price below the liabilities value related to long-term external debt, underlined assets value decrease in case of securitization.

External financial shocks and capital flows structural changes have macro- and macro economic implication on transitional economies.

Macroeconomic impact could be assessed with the balance of payments adjustments, international investment position structural changes, exchange rates excessive volatility, worse financial conditions for economic recovery and growth.

Microeconomic impact could be considered with the changing foreign trade and investment patterns, revising access conditions to international financial markets, tightening credit standards, foreign owned banks better comparative performance during crisis and post-recession time.

The global financial instability continues, the economic recovery in developed countries continues weak, the sovereign debt crisis in the USA and Europe remains hard to mange, central banks monetary policies are bringing limited results, therefore a probability of financial crises in a near future still considerable.

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Olena Slozko*

ECONOMIC SITUATION IN UKRAINE, IMPACT OF GLOBAL INTEGRATION PROCESSES

Abstract:

At the current stage of Ukraine's increasingly integrated into global financial and credit space. The main and most developed in the last few years, forms of such integration are: the integration processes in the banking system and financial resources of external financial markets, economic actors in Ukraine through the implementation of external loans.

As part of the internal processes of integration in the banking system there is an active entry of foreign banks into the Ukrainian market. Specifically, in 2008 the domestic market of 180 banks operating license from the NBU. Of these, 49 (27,2%) - a bank with foreign capital and including - 18 banks (10%) - a bank with 100-percent foreign capital. As of 01/11/2010, the number of registered banks in Ukraine, which have a license, dropped to 178, including number of banks with foreign capital increased during the crisis period to 53, including a 100-percent foreign capital - 20.

During the years 2008-2010 (01.01.2008 to 01.11.2010 and) the share of foreign capital in the registered capital of banks of Ukraine increased from 35,0% to 39,5% of total assets of banks increased from 599.396 billion. to 927.122 billion., more than 50%.

Another evidence of increasing activity of foreign banks to acquire domestic financial institutions (non-residents' purchases of Ukrainian banks) are quantitative and qualitative characteristics of foreign direct investment in Ukraine. Thus, in recent years was the most attractive investment for the financial sector. Despite the cri-

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sis, in 2008 the increase of foreign capital in the financial sector amounted to 2285.7 million dollars. And in financial institutions at year-end accumulated 7154.8 million. (20,0%) equity [1]. In 2009 the increase of total foreign capital in the economy, given its revaluation, losses and exchange differences amounted to 4410.4 million dollars. That was only 72,6% the previous year. However, the increase of foreign capital in enterprises engaged in financial activities amounted to 1813.7 million dollars. and reached 8968.4 million. which led to an increase in share to 22.4% [2]. In January-September 2010 gain on foreign capital enterprises engaged in financial activities amounted to 1684.3 million dollars. [3]. Given the exchange rate difference at 10.01.2010, in financial institutions accumulated 14115.4 million. or 33,2% of total foreign investment.

Key words: economic situation, foreign investment, foreign banks, global integration process

Thus, we should pay attention to the fact that discussion of the conditions and rules of opening branches of foreign banks in Ukraine are of significance as interested in the Ukrainian market, foreign banks will go towards the acquisition of Ukrainian banks with the existing system of branches and customer base.

In the part of foreign banking integration (out of domestic banks to foreign financial markets) have a significantly lower activity. Expansion of the Ukrainian financial institutions to foreign markets is still episodic and regional nature.

In turn, the Ukrainian banks to buy banks in Latvia and Georgia. Ukrainian banks opened offices in Russia, Kazakhstan, the Baltic countries. In particular missions abroad opened: State Export-Import Bank of Ukraine (New York), for "Privat" (Beijing, China), Forum Bank (Kazakhstan).

The second form of participation of actors of the Ukrainian economy in the global financial and credit space - is the use of external borrowings.

Global financial crisis has caused the growth needs of the state in leveraged resources. In this regard, and by a significant devaluation of the currency during 2008-2009, total public and guaranteed debt increased more than three times [4].

If in 2002 the ratio was 28.6%, then decreased in 2005 to 14,3% in 2006 was 12,1% at the end of 2007 amounted to 9,9%, and at the end 2008 - 13,8%. Score level the public debt to GDP at end-2009 is 23,2%, and state and state guaranteed debt to GDP - 33%.

The ratio of public debt to GDP in Ukraine is relatively low compared to other countries, including developed countries, despite the fact that Ukraine's capabilities in public debt management suffer significant limitations.

Gross foreign debt of Ukraine in 2008 grew by 27% or 21.7 billion dollars. And on January 1, 2009 it totaled 101.66 billion. Gross foreign debt of Ukraine in 2009 increased by 2,3% - to 103.97 billion dollars. That was 88.9% of GDP.

Significantly changed emphasis in the debt structure by sector of the country: 2009 was marked by debt in lieu of the banking sector debt and public sector management of monetary, whose share in gross external debt has grown over the financial year from 16.4% to 23.1 % and the bank - fell from 38,8% to 29,6%. The share of other sectors amounted to 47,3% against 44,8% at the end of 2008

According to the National Bank, the public administration sector debt as of January 1, 2010 reached 17.8 billion dollars. (17,1% of gross external debt and 15.2% of GDP), which is 5.8 billion. (48.9%) more than the beginning of 2009 the increase was due to debt: income in the accounts of the Government of Ukraine trench stabilization loan program the IMF stand-by in the amount of 3.1 billion SDR (special borrowing rights) in the second and third quarter of last year, the use of IV quarter of 2009 of the Government of the additional allocation of special borrowing rights (SDR 1.2 billion) committed by the IMF in the interests of Ukraine within its quota, as well as income credit from international economic development organizations (World Bank, EBRD and European Investment Bank) amounting to 0.2 billion.

In 2009, Ukraine repaid 1.2 billion obligations on foreign government bonds in 2004 and denominated in Swiss francs of government securities in 2006

Sector debt of the monetary regulation in 2009 increased by 1,5 billion dollars. (By 31,4%) to 6,2 billion. The growth was at the expense of the second tranche of the IMF stabilization loan (SDR 875 million) and additional borrowing allocation of special rights carried out by IMF (SDR 81 million).

One of the most important parameters that characterizes the efficiency of debt policy of the country and its ability to meet debt obligations, is the ratio of total payments to service and repay debt to the state budget revenues and GDP. After the debt crisis of 1998, when the total debt payments reached 71.4% of annual revenues of the state budget implementation during the 1999-2002 debt restructuring allowed to reduce the burden on the state budget. Although in recent years, a gradual increase in payments on public debt in absolute terms, the budgetary cost of servicing debt and public debt has stabilized within 2,0-5,0% of GDP and the end of 2009 this indicator amounted to 4.33% of GDP.

At the end of 2009 external debt of the banking sector of Ukraine returned to the level of 2007 and amounted to 30.8 billion dollars. (26,3% of GDP), which is 8.7 billion. less than at the beginning of the year.

As of October 31, 2010 and guaranteed public debt of Ukraine amounted to 51.2 billion dollars. USA (405.312.029,98 thous.), Including: public and publicly guaranteed external debt - 32.5 billion. USA (63.43% of the total public and guaranteed debt), external public debt was 21.9 billion dollars. USA. During this period the state foreign debt increased by 27.68%.

The main form of foreign borrowing entities of the Ukrainian economy is the issue of eurobonds and loans (medium and long). The main investors, buyers of Ukrainian eurobonds on international markets are investment companies and banks. For example, among investors Eurobond Kyivstar present: Funds - 68%, investment banks - 17%, insurance and pension companies - 8%, other banks - 7%. In geographical terms, investors Eurobond Kyivstar is: Great Britain - 47%, USA - 30%, France - 5%, Netherlands - 5%, Asia - 4%, other - 9%.

Select the quantitative characteristics of forms and processes of integration of subjects of the Ukrainian economy into the global financial and credit space, we select also the qualitative features of these phenomena.

Firstly. Can be described positively the fact that Ukraine is a party to financial and credit integration, major and those that take on forms of its manifestation, is banking integration and entry into international credit relations of all subjects of the national economy through foreign borrowing. Participation in the global financial and credit space has positive benefits for the Ukrainian economy, as increased opportunities for financial resources and its subjects: businesses and individuals in the short term.

Second. Negative evaluation of merit as the financial risks that may occur in the domestic economy in the long run, and who have questions to national experts characterized the Ukrainian economy. These include.

1. Prevalence odnostoronnosti integration processes in the banking sector. Modern banking integration is mostly internal. On the Ukrainian market of foreign financial institutions. But domestic banks and their services on the world market are presented in a very limited form. And the active dynamics of foreign bank integration has not yet been observed.

2. Focusing on short-term benefit of subjects of the Ukrainian economy in the implementation of large-scale foreign borrowing.

Financial resources that get the subjects of the Ukrainian economy to foreign markets have a positive outcome in the short term. But in terms of long-term prospects and value for foreign loans - a situation opposite. In particular, the macroeconomic context of large-scale foreign borrowing of banks and non-financial enterprises in Ukraine rise to a number of negative processes.

Thus, the rapid growth of corporate sector external debt is not accompanied by adequate increases in export earnings. Disparities in the rates of accumulation of external debt of Ukraine and the national growth rate of exports dangerous because in case of violation of positive dynamics of receipt of external loan debt that has accumulated will have to serve due to reduced domestic capital formation and reduced consumer spending entities of national economy. This hinders the development of production, raising living standards and put pressure on the national currency (by eliminating international reserves).

Moreover, foreign loans, which involved state enterprises and commercial banks in Ukraine are mainly of consumer orientation, which also violates one of the key performance criteria for external borrowing

Mobilized by banks foreign loan capital has become a source of credit boom in the domestic market, which is not stimulated the domestic production. Keep in mind that in itself growth of consumer credit is very dangerous, because the scale of national economy consumer spending does not create a trusted source for repayment of accumulated debt (especially if the additional demand is met through imports), and large volumes of external commitments Transactions generate high currency risks.

3. The formation depends on the situation on international capital markets. After crisis events in the U.S. mortgage bond market value of foreign loans to Ukrainian banks has grown to 8-12% per annum. End of 2007, several large banks abandoned plans for syndicated bank loans, referring to the high cost of borrowing. The long stagnation of the international capital market will slow down the growth of external debt of Ukraine, but the degree of instability of the banking system increase. Therefore, a significant deterioration in trading conditions or a sharp devaluation of the national currency can be simply disastrous.

Thus, falling prices for products of export or domestic sharply higher import prices will deepen the current account deficit and lead to narrowing of the income base to pay off past debts. A currency devaluation will increase substantially the burden of external debt service for companies that have revenues in foreign currency. For banks in case of devaluation not only increase the load of external payments, but also dramatically worsen asset quality: non-payment borrowers who received loans in foreign currency may be a mass phenomenon. In macroeconomic terms, these processes will cause narrowing of the domestic demand, lowering the level of economic activity and a decline in international reserves in Ukraine.

Given the above, we can conclude that Ukraine is a party to the integration processes unilaterally. That is the object, not the subject of global financial and credit space, taking advantage of global financial environment, taking into account mainly short-term perspective and not taking into account the trends of the future. This, in turn, determines the need, take measures to improve its competitiveness of Ukrainian economy by improving the internal market in financial services, as well as measures to reduce the financial risks arising from financial and credit integration.

Evaluating the stability of the domestic financial market crisis on the threats we note that the low share of Ukraine in the global financial system makes its financial market was safe from the transnational financial speculators, creates a permanent threat to the financial sustainability of national finances and a deteriorating financial situation of Ukrainian joint stock companies. Acute questions about how to protect the national economy from the risk of outflow of foreign capital in the form of repatriation of profits or "escape" short-term assets abroad due to the decrease in confidence in domestic economic policy.

The current state of the national financial market of Ukraine shows a low level of integration into global financial processes. No matter how paradoxical, but they actually helped the country survive on less losses as global financial crisis of 1997-1998, the events September 11, 2001 Another thing that this points to the minor scale in the world economy nature of domestic financial market.

Events in 2008 allow us to conclude that the policy of accelerated integration of Ukraine into the global economic and financial community, which is manifested, particularly in liberalizing access to foreign capital on domestic financial market and to offer residents many opportunities of access foreign debt markets, was premature.

These are Ukraine's position in global competitiveness rankings for 2010-2011, comprising experts from the World Economic Forum, a group of indicators that describes the sophistication of financial markets. The latest ranking shows estimates for 139 countries of the world [5]. For the year, Ukraine has lost 13 positions in aggregates "Financial market sophistication" - 119 against seat 106 in 2009 Reliability of the banking system estimated by the authors of the report (138 place - last figure among the countries in the ranking), ease of getting credit (130-something), Stock Market Regulation (127), restrictions on capital flows (125), accessibility (affordability) Financial Services (122), availability of venture capital (121), funding through local markets Securities (120). Ukraine has received the highest estimation by the "availability of (institutional) financial services" - 108 .

Despite the globalization of world economy, countries with economies in transformation, especially those which have not yet completed the formation of effective national market institutions should not be overestimated development opportunities by attracting foreign financial resources. As foreign investors are uncertain about the political and economic future of most post-Soviet countries. Availability formed the institutional environment of financial market could prevent the development of negative tendencies, but in countries with economies in transformation of this environment is far from complete.

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THE INNOVATION STRATEGIES OF COUNTRIES IN POST-CRISIS GLOBAL ECONOMY: A CONCEPTUAL APPROACH

Summary. In the article the specific features of global economic system at the modern stage of world development have been studied. The conceptual foundation of developing of countries' innovation strategies at different stages of Kondratiev long cycle has been determined.

The globalization and innovative development have caused significant transformations at all the levels of social and economic system of modern society. We can observe the acceleration of system processes on the global level resulting in changes of fundamental characteristics of the world economic system, growth of its organization efficiency and integrity. The world economy is moving to a new state that is the global economic system.

Unlike widely and deeply analyzed problems of global development, the nature of the global economic system, its structure, factors of formation and mechanisms of development have been studied insufficiently.

The mechanism of the world economy systemic development has been described in interdisciplinary conceptions of globalization. The civilization theories of Fernand Braudel and Alvin Toffler, conceptions of the world - system analysis of Giovanni Arrighi, Immanuel Wallerstein and Andre Gunder Frank, the conception of quantum consciousness of Ervin László, the integral theory of structural constructivism of Pierre Bourdieu and others, constitute the basis for the systems analysis of the global economy. Nevertheless, the complexity and multi-structural character of the research object, continuous swift changes in the dynamic world environment predetermine the necessity of further scientific development.

The concept of global economic system is relatively newly included to the academic vocabulary. Therefore, its theoretical and methodological foundation is in progress now. Some re-

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searchers are still using the concept "world economy" or "world economic system" as the basic one taking into account the global properties, new features and characteristics acquired. At the same time, Z. Adamanova, I. Adelman, L. Allen, O. Bilorus, V. Lomakin, Yu. Makogon, I. Rodionov, N. Povazhna, O. Shvydanenko, A. Filipenko, Sh. Hall and other scholars are actively including the concept of the global economic system in the modern lexicon.

The peculiarities of innovation process in the global economy with taking into consideration the tendencies of cyclical economic dynamics study A. Akaev, K. Freeman, M. Hirooka, A. Kleinknecht, G. Mensh, A. Poletaev, I. Savelieva and others. However the conceptual approaches to development the innovation strategies for the countries integrated into global processes in different manner need to be improved.

The research is pointed at the development the concept of global economic system, and also proposes a conceptual basis of designing the innovation strategies at different stages of long economic cycle for the countries with different level of integration into the global economy.

The research is based at system approach as well as at historical, logic and statistical methods.

Realizing the systems character of modern globalization processes, researchers admit that new phenomena and processes influencing the global economic system formation have not acquired general economic value yet and are on different stages of their evolution [1].

Therefore, researchers interpret the global economic system through the concepts of the world economic system, international (world) economy, etc. So, N. Povazhna defines the global economic system as world economic system where national processes of production, exchange and consumption of wealth lose their autonomy and take place as an integrated planetary process [2, c. 6].

The study of mechanisms of the global economic system formation requires the clarification of its essence, content and structure through the system methodology and the results of academic researches devoted to the development of the world economy under the globalization.

From the point of view of systems approach, the development of the world economy is a profound qualitative change of its components, connections (i.e. structure in general) and functioning. It causes system changes on the world economy level that take place with a definite periodicity. In spite of the diversity of interpretations of the concept of development itself, the major number of researchers considers the development of the world economy system to be equal to progress, or complication of the economic system.

The author considers the essence of globalization, from one side, as a continuous - and - discrete nonlinear process directed at achieving maximum integrity of the economy and society, from the other side, as a result of such process – a number of new states of the world social and economic system which arise with the increase of its integrity [3, c. 84]. This interpretation enables to examine the contradictory impacts of the world development basic characteristics on the globalization dynamics, and the world system advancement in time and space dimension along the nonlinear trajectory in the direction of the global economic system formation.

In our opinion, the concepts "world economic system" and "global economic system" are not equal despite the closeness of meanings. Each of them is to be clarified from the point of view of terminology and meaning.

We define the world economic system as a set of international economic and essential non-economic (political, legal, socio-cultural, etc.) relations, their agents - countries, regional integration groups, international organizations, legal and physical entities – producers and consumers of goods who operate on the world markets of commodities, capital and labor, including enterprises, multinational corporations, strategic alliances of companies that function and co-operate through corporate, national, over-national organizational, economic and institutional mechanisms and use the world labor, capital and natural resources.

In other words, the dominant component of the world economic system is the subsystem of international economic relations between the participants of the world economy on the world markets of commodities, capital and labor. It is worth stressing the multi-level character of organizational, economic and institutional mechanisms that provide functioning and co-operation of the world economic system's participants.

According to T. Orekhova [4, c. 11], we consider the modern world economic system as complex heterogeneous poorly-organized system whose sub-systems and elements interact mainly within the area of international (foreign economic) relations. Most number of local economic actors operating inside of national economies with relatively low level of socio-economic development is insufficiently involved in such relations. If developed national economies are competent participants of the world economic system, local level of peripheral and semi-peripheral countries is only partly involved in the world economic relations.

In turn, the global economic system is to be considered in the temporal and special context, as a new quality of the world economic system. This quality is characterized by high level of closeness and institutionalization of relations between subsystems and elements, and accordingly – by high level of organization, which lead to the change of the system structure for maximum integrity.

In other words, the global economic system is a completely new quality state of the world economic system that arises as a result of its movement to the maximum integral state (which itself is scientific abstraction).

In our opinion, unlike the world economic system where the participants interact mostly in the area of international relations, in the global economic system the internal connections are also of great importance. It means that interaction on the national and local markets between the participants who are involved in the system of global relations is getting global system character. The constituent subsystems and elements of the global economic system are not only the direct participants of the international (world) market, but also the actors operating within national economies and local markets, and directly or indirectly are the agents of global demand and global supply, producers (or participants of supply chains) and consumers of «global product».

The transformation of the world economic system from its previous states to the new condition takes place in time and space, in a continuous-and-discrete manner, through the accumulation of the changes represented by the indexes of internationalization and global integration [3].

The global economic system arises within the world economic system as a result of some kind of «maturity» of globalization processes and a higher level of institutionalization of the connections between separated subsystems (elements) of the world economy. It is a «nucleus», or sphere of very close interconnections within the world economic system which appears on a definite stage of globalization and in the process of the world economic system evolution it grows due to involving its components (subsystems and elements of different levels) into a new system integrity.

Thus, the global economic system is a new modern quality of the world economic system, a form of existence of the latter which is in the process of formation. As the process of the global

	Index values per years							
Index	**1980**	**1985**	**1990**	**1995**	**2000**	**2005**	**2007**	**2008**
Integral Index of Globalization	38,82	40,43	40,9	47,3	53,09	56,38	58,12	58,03
Index of Economic Globalization	42,8	44,89	46,4	51,13	57,45	61,23	63,49	62,52
Index of Political Globalization	38,51	40,03	39,57	50,28	53,4	57,14	60,19	61
Index of Social Globalization	35,43	36,57	37,54	41,58	47,91	50,19	50,33	50,18

economic system formation is gradual and non-linear and it is carried out in a continuous - and - discrete manner, its bounds is not clearly expressed but blurred out towards the outside part of the world economic system where the substantial quantitative changes will be transformed into qualitative ones in future.

Let's note that there are no criteria for determining the global economic system's bounds existing at a definite period of time.

The author makes an attempt to define conceptually the modern dimension of time and space limits of the global economic system through the KOF Index of Globalization.

The analysis of dynamics of integral KOF Index of Globalization [5] for the world economy, and its constituents - Indexes of Economic Globalization, Political Globalization and Social Globalization has been conducted for the period 1980 – 2008 (Table 1).

Table 1

Integral KOF Index of Globalization, 1980 – 2008

Source: KOF Index of Globalization 2011. Press Release [5].

In 1980–1990 the value of Integral Index of Globalization rose insignificantly by 0.2 points. In the early 1990-s a slight growth of the Index can be observed. By 2000 the Index had increased almost by 13 points. The Index of Globalization value for Eastern Europe and Central Asia demonstrates a higher growth in the period 1990-2000 as compared to the World Index value due to the transitional reforms in post-socialist countries' and the rise of openness of their economies.

The early 1990-s is the period of intensive integration process and formation of regional organizations – the Ands Common Market (1990), MERCOSUR (1992), Organization of Asia – Pacific Economic Cooperation APEC (1989-1993), signing the Agreement on Free Trade between ASEAN countries (1992), the Treaty of Maastricht in 1992, North-American Agreement about Free Trade (NAFTA) and the completion of the Uruguayan round of GATT/WTO in 1994. It should be assumed that the world globalization processes and institutionalization of international relations as well as socio-economic transformations in the CEE countries and former USSR caused the huge rise of the World Index of Globalization. It enables us to consider the early 1990-s as a starting point of global economic system separation in the general structure of the world economic system, or global economic system scopes in temporal dimension.

The conceptual defining of spatial limits of the modern global economic system as a part of the world economic system should be done by classifying countries according to the degree of their integration into the globalization processes on the basis of the KOF Index of Global-

The countries' groups	**The value of KOF IG**	**Countries**
Countries with high IG KOF	70.00 and more	Total 41 countries
ncluding:		
Countries with a sufficiently high value of IG KOF	80.00 and more	Belgium, Austria, Netherlands, Sweden, Switzerland, Denmark, France, Hungary, Portugal, Ireland, Finland, Czech Rep., Luxembourg, Slovak Rep., Germany
Countries with moderately high value of IG KOF	70.00 - 79.99	Spain, Singapore, Norway, Cyprus, United Kingdom, Australia, Italy, New Zealand, Slovenia, USA, Poland, Greece, Malta, Croatia, Bulgaria, Chile, Israel, Iceland, Lithuania, Malaysia, Jordan, Romania, United Arab Emirates, Latvia

The countries' groups	The value of KOF IG	Countries
Countries with medium IG OF	50.00 - 69.99	Total 76 countries
including:		
Countries with high medium IG KOF	60.00 - 69.99	Bahrain, Qatar, Japan, Panama, Montenegro, Mauritius, Uruguay, Serbia, South Africa, El Salvador, Russian Federation, Ukraine, Rep. of Korea, Peru, Lebanon, Kuwait, Jamaica, Turkey, Thailand, Costa Rica, Bosnia and Herzegovina, Moldova, Tunisia, Macedonia FYR, Oman, Morocco, Brunei Darussalam, Honduras, Guatemala, Saudi Arabia, Argentina, China, Georgia, Mexico
Countries with low medium IG KOF	50.00 - 59.99	Egypt, Kazakhstan, Brazil, Colombia, Grenada, Trinidad and Tobago, Azerbaijan, Guyana, Indonesia, Philippines, Kyrgyz Republic, Paraguay, Albania, Namibia, Dominican Republic, Nigeria, Ecuador, Fiji, Zambia, Bolivia, Barbados, Nicaragua, Libya, Venezuela, Gabon, Samoa, Armenia, The Gambia, Algeria, Mongolia, Botswana, Sri Lanka, Antigua and Barbuda, Pakistan, Senegal, Cote d'Ivoire, Mauritania, Ghana, Cuba, The Bahamas, India, Belize, Belarus
Countries with low KOF IG	Below 49.99	Total 68 countries
including:		
Countries with moderately low KOF IG	40.00 - 49.99	Aruba, Djibouti, Seychelles, Mozambique, Zimbabwe, Surinam, Vietnam, Saint Lucia, Cambodia, Togo, Papua New Guinea, Guinea, Kenya, Vanuatu, Swaziland, Angola, Cape Verde, Yemen, Rep. Uganda, Mali, Cameroon, Benin, Syrian Arab Republic, New Caledonia, Saint Vincent and the Grenadines, Madagascar, Lesotho, Dominica, Burkina Faso, Rep. of Congo, St. Kitts and Nevis, Macao China, Malawi, Tajikistan, Uzbekistan, Maldives, French Polynesia
Countries with very low KOF IG	20.00 - 39.99	Chad, Bangladesh, Rwanda, Turkmenistan, Iran, Guinea Bissau, Nepal, Ethiopia, Sierra Leone, Haiti, Tanzania, Sudan, Niger, Cayman Islands, Burundi, Sao Tome and Principe, Central African Republic, Congo, West Bank and Gaza, Netherlands Antilles, Jamaica, Liberia, Afghanistan, Yemen, Bhutan, Lao PDR, Tonga, Equatorial Guinea, Kiribati, Solomon Islands, Myanmar

ization. It is worth noting that the achieved results are relative due to conventional character of quantitative estimations of countries' integration into the global economy.

The author presents her substantiation of countries' grouping according to their KOF Index of Globalization value.

The grouping was made by using statistic method of standardization. Construction of the distribution curve demonstrates the type of distribution close to the normal one. Accordingly three levels of globalization were separated:

- high level (Index of Globalization value is higher than 70,00);
- medium level (Index of Globalization value is 50,00 - 69,99);
- low level (Index of Globalization value is 20,00 - 39,99);

The data for 186 countries classified according to KOF Index of Globalization 2011 are presented in the Table 2.

Table 2

Classification of countries according to the KOF Index of Globalization - 2011

Composed by author according to [5].

Forty one countries that form the first group (Index of Globalization is 70,00 and higher) are on a high stage of the globalization in economic, political and social dimensions and present a relative spatial border of the modern global economic system. The interconnections between the above countries are characterized by a high degree of closeness. The high level of institutionalization of the interrelations within the group is testified by the following facts: 27 countries are members of EU, 28 are in OECD, the USA and Canada operate within NAFTA Agreement, all the countries of the group are members of WTO.

The countries of the second and the third groups are on lower level of integration into the globalization processes. It differs from rather high for countries with Index of Globalization 60,00 - 69,99 showing their dynamic movement to the integration into the global economic system to the countries - outsiders with very low Index of Globalization value (20,00 - 39,99).

For the group of 22 countries and territories such as Andorra, American Samoa, Bermuda, Channel Islands, Faeroe Islands, Micronesia, Greenland, Guam, Isle of Man, Iraq, Liechtenstein, Monaco, Marshall Islands, Northern Mariana Islands, Mayotte, Palau, Puerto Rico, Korea, Dem. Rep., San - Marino, Somalia, Timor-Leste, Virgin Islands (U.S.) the KOF Index of Globalization is not determined because of lack of necessary data for calculation caused by different reasons such as very small dimension of economy, special status or a sort of isolation from the global processes.

As it was mentioned above, the borders of global economic system are indistinct and can not be clearly described in terms of quantity. The additional subdivision of each group into two sub-groups proves heterogeneous character of their composition concerning the closeness of global interconnections between countries and permanent rise of the closeness from «periphery» of the world economic system to its «nucleus» that is the global economic system. Therefore, a number of countries with high medium value of Index of Globalization - from 60,00 to 69,99 that includes also Ukraine, can be considered as sufficiently involved in the global economic system in most sectors of their national economy, or as those which will be involved there in the nearest future. There is evidence of their available potential and the necessity of keeping the attained positions by using and developing the advantages of globalization.

Special attention should be paid to BRICS countries (Brazil, Russian Federation, India, China and South Africa) which are characterized by middle value of Index of Globalization. According to 14-th Annual Global CEO Survey the experts of PricewaterhouseCoopers named the above countries as future «locomotives» of the world economic development [6]. It is also expected that business activity will move to new regions of the world such as Asia, Africa, Latin

Antony Hopkins	**Anton Filipenko**	**World Bank**	**OECD**
Archaic	Archaic	-	-
Globalization	(Low-intensity) Globalization: trade of ancient civilizations and middle-age states		
Proto- Globalization	Proto- Globalization: the period of Great Geographic Discoveries, World market formation, beginning of industrialization (XV-XVI cent. - till the beginning of XIX cent.*	-	-
1600 – 1800			

Antony Hopkins	Anton Filipenko	World Bank	OECD
Industrial Globalization: 1800 – middle of XX cent.	Modernistic Globalization: transition of the society to modernization and industrialization as a result of scientific and industrial revolutions (first quarter of XIX cent. – second half of XX cent.)*	First wave of Globalization: 1870-1940	First stage of Globalization - internalization (activization of export flows): from the middle of XIX cent.
Post-colonial Globalization: 1950 – 1970 -s		Second wave of Globalization: 1950 – 1980	Second stage of Globalization – transnationalization (activization of FDI flows): after 1945
Modern Globalization: after 1970	Post-colonial (organic, consistent) form of globalization: elimination of colonial system (1950-1970-s), disintegration of USSR and East Block (1990-s.)*	Third wave of Globalization: from 1980-s	Third stage – exactly Globalization: from 1980-s

America. The growth in the Middle East and in Eastern Europe is expected as well.

Countries with low Index of Globalization (Chad, Guinea, Madagascar, Uzbekistan, Bangladesh, Turkmenistan, Ethiopia, Rwanda, Tanzania, Tajikistan and others) are characterized by very low closeness of relations with other subsystems and elements of the world economic system and in most cases make periphery of the latter.

The establishment of relative temporal and space limits of the global economic system enhances further development of the available approaches to the division of globalization processes into periods.

The principle stages and historical types of globalization interpreted by British historian Antony Hopkins [7], Ukrainian researcher of globalization problems Anton Filipenko [8, p.19], experts of the World Bank [9] and Organization of Economic Cooperation and Development (OECD) are generalized in Table 3.

Table 3

Generalization of the points of view to the stages and types of globalization

**The time limits of the stages of globalization defined approximately according A. Filipenko conceptual approach*

Composed by [7, 8, 9]

Swift acceleration of globalization processes in the early 1990-s and the separation of bounds of the global economic system which includes the group of countries with high level of socio-economic development and high closeness of interrelations with other subsystems and elements of the world economic system indicates the appearance of a new form of globalization – systemic globalization.

The systemic character of modern globalization is predetermined by qualitative changes in the structure of the world economic system, by the increase of closeness and institutionalization of relations between the separate subsystems (elements) of the world economy. The global economic system is being formed due to gradual involvement into the new system integrity of the countries which are able to realize efficiently the competitive advantages of globalization and to minimize its negative externalities using the potential of the economy of knowledge and innovative development.

Globalizing economy is characterized by favorable conditions for innovative development. In turn, the countries with innovation-oriented economies are more actively involved in globalization processes. This fact is proved by generalized results of measuring the innovative potential and the degree of globalization of the world countries. Such measuring is regularly carried out by international organizations and research centers.

The calculation of correlation within the groups of countries with high, middle and low Indexes of Globalization made by the author [3], showed that the closeness of relations between the levels of globalization and innovative development was the highest for the countries with high value of index of global connections and lower for low globalized countries.

The significance of innovative advantages in providing stable competitiveness of the global market players is sharply increasing. Nowadays, the accumulated knowledge, innovations in all the activities, technologies of 5-6 generations are becoming exceptionally significant, act as «generators» for most of new competitive advantages and cause the success in competition.

Thus, the system synergetic interaction of globalization and innovative development processes leads to gradual formation of innovative economy in the world and is a driver of the global economic system formation. In turn, the complex interaction of innovative and integrative competitive advantages is the basis of countries' competitiveness on the stage of systemic globalization.

Under the conditions of the world system's transition to the globalization - and - innovation stage of post-industrial development at the turn of the XX century, the strategies of countries' competitiveness based on the formation and realization of innovative and integrative competitive advantages should be developed taking into account the cyclic world dynamics, particularly in the context of «long cycles» theory. A prominent sociologist and economist Nikolay Kondratiev established linkage between the large cycles and the processes of stock accumulation and the dynamics of innovations [10]. Joseph Shumpeter found the reasons of long cycles in the waves of technological innovations and substantiated the assumption about the principal role of innovations and entrepreneurs' innovative activities fluctuations in the mechanism of long cycles [11]. The explanation of Kondratiev's "dynamics of cycles" through Shumpeter's "waves of technological innovations" was developed in works of Alfred Kleinknecht, Gerhard O. Mensh, George Modelski, Christopher Freeman and others.

Although Kondratiev waves time limits are still being under the discussion [12, 13], it is important to separate Kondratiev cycle upwave and downwave stages for compare it with globalization periods. So the upwave stage of the 1st Kondratiev cycle (1785/90–1844/51) took the period from the end of 1780-s – beginning of 1790-s till 1810 – 1817. Ascending stage of 2nd Kondratiev cycle (1844/51–1890/96) N. Kondratiev determined is marked as 1844/51 – 1870/1875. The prosperity stage of the 3rd long cycle covered 1890 – 1896/1914 – 1920 years.

Kondratiev's followers propose to determine the limits of the 4th and 5th cycles' ascending stages accordingly as 1939 – 1950/1968 – 1974 and 1984 – 1991/2005 – 2008 [6, с. 190].

The comparison of time limits of Kondratiev's long cycles with the stages or «waves» of globalization given in Table 3 demonstrates the considerable coincidence of globalization processes acceleration with upwave stages of Kondratiev's cycles. It can be explained by high correlation between the globalization and innovative development. So, the calculation of correlation between the KOF Index of Globalization and the Global Innovation Index published by the analytical center of Lauzanne Business School INSEAD, Switzerland [14] demonstrated the high closeness of relations between the analyzed parameters (Pearson's correlation coefficient is equal to 0,8244). This dependence has to be considered through the prism of J. Shumpeter's thesis about the exclusive role of innovations in causing long cycles of business activity.

Such a statement leads to an assumption that innovative processes expand by different way in different phases of a long cycle. Modern scientists have substantiated the fact that innovations are not always perceived by an economy but only in definite periods of its development [13, p. 230]. A. Kleinknecht presents a substantial body on data on the relationship of radical innovation to growth of international output and long waves since the latter part of the nineteenth century. He proposed that the incidence of radical product innovation declines in the late prosperity phase, and rises again in the late depression phase of the long wave. Moreover, the radical innovations in the late depression phase are followed by a stream of "related" innovations, within the innovating industries, during the early prosperity phase [15, p. 385]. G. Mensh has determined that an economy is most sensitive to innovations in the period of depression [16]. According to the research of C. Freeman, the development of innovative processes takes place in the period of recovery [17]. The research carried out by A. Poletaiev and I. Savelieva shows that the periods of maximum number of basic innovations coincide with the depression phases of the world long cycle [18, p. 45]. The study of dynamics of the world leading companies' expenditures on research and development (B. Yaruzelskiy and C. Dehoff) showed a 5,7% growth of such expenditures during the world financial and economic crisis in 2008-2009, in spite of a 8,6% decrease of operational income and a 34% fall of net profit [19, p. 3]. the results of research Therefore, we can assume that the time of «starting» the innovative process covers a considerable period during the depression and recovery phases. In turn, the Japanese scientist M. Hirooka proved that the diffusion of innovations takes place simultaneously with the upwave stage of Kondratiev's cycle [20]. His ideas were generalized and developed by A. Akaev that studied the diffusion of innovation along ascending stages of Kondratiev cycles [13, p. 236].

The results of scientific research of A. Akaev, K. Freeman, M. Hirooka, A. Kleinknecht, G. Mensh, A. Poletaev, I. Savelieva and others testify to the fact that innovative competitive advantages are formed on the descending (downwave) stage of Kondratiev's large cycle, whereas the diffusion of innovations takes place on the ascending (upwave) stage of the «long wave» and reaches the stage of "saturation" in the peak of the cycle.

The coincidence of ascending stages of Kondratiev's long cycles with the acceleration of globalization processes was clearly revealed in the sharp growth of indexes of globalization on the upwave stage of the Kondratiev last (fifth) cycle which is considered to last from 1984 to 2005-2008. This coincidence proves that the ascending stage of Kondratiev's long cycle is characterized by favorable conditions for profiting from competitive advantages provided by integration and globalization.

The discovery of the relations between the dynamics of globalization and innovation processes in the world economic system, the determination of a correlation between the periods of globalization processes acceleration and definite phases of Kondratiev – Shumpeter's «long waves», as well as determination of peculiarities of innovative processes implementation on particular phases of the long cycle lay down the foundations for developing strategies of competitiveness for economic entities' – enterprises (companies), regions, countries and international integration groups.

On the descending stage of the long cycle the formation of innovative competitive advantages through companies' management and government's assistance to the innovation process is of particular importance.

More than two thirds of the companies included in 2009/2010 Global Innovation 1000 maintained or increased R&D spending in 2008. Furthermore, the analysis revealed that innovation investment is increasingly viewed as essential to corporate strategy: More than 90 percent of executives surveyed said innovation is critical as they prepare for the upturn. "Innovation is what drives our competitive position in all three of our markets — automotive, professional, and consumer — and therefore we can't back off," says Robert Lardon, corporate vice president for strategy and investor relations at Harman International Industries Inc. Adalio Sanchez, general manager of IBM's System X server business, echoes that point of view: "I would argue that the recession is a catalyst for increased innovation" [19, p.4].

The activation of early phases of the innovation process on the decline stage requiring investments in research and development creates the necessary conditions for a wide diffusion of innovations on the ascending stage of the cycle. The success of innovation policy depends significantly on the management's readiness and ability to take into account the above mentioned cyclic tendencies when developing long-term strategies of competitive development, and to provide the necessary assistance to the innovation process on the depression and recovery stages.

Such policy will result in the creation of conditions for an «innovation jump» and efficient implementation of innovative model of economic development for the countries which are highly integrated into the global economy, on the ascending stage of the cycle. The realization of innovative competitive advantages, in turn, creates conditions for stimulating the participation of separate companies and countries in the process of global integration on the basis of partnership on the growth stage. Thus, the integration competitive advantages can be used most efficiently on the ascending stage of Kondratiev's cycle. The data of the world globalization dynamics for the period of 1980 – 2000 prove the above statement.

The economists argue that the ascending phase of the Kondratiev's fifth cycle ended in 2005-2008 whereupon the world economy entered the depression phase which will probably last from 2010 to 2020 [12, p. 237]. This period is the most favorable for «starting up» a new wave of innovation activity directed at the development and implementation of innovations at the global level.

The conducted research allowed to come to a conclusion about the formation of the global economic system in the early 1990-s within the group of countries with high Index of Globalization value, and about the definition of modern stage of globalization as a systemic globalization.

Strategies of competitiveness for economic agents – enterprises (companies), regions, countries and international integration groups under the conditions of systemic globalization are to be developed taking into account the peculiarities of the world cyclic dynamics and the implementation of innovative processes on particular stages of the long cycle.

The special attention to the formation and realization of innovation competitive advantages by supporting innovative process, especially on its early stages, is to be paid mostly on the descending stage of Kondratiev's long cycle. At the same time, integration and globalization competitive advantages can be used most efficiently on the ascending stage of the long cycle.

The period from 2010 to 2020 considered as a descending stage of Kondratiev's fifth long cycle is the most favorable for stimulating the innovation activity, especially in the countries integrated into the global economy. Taking into consideration the place of Ukraine at the group of countries with high medium value of Index of Globalization the approach proposed above may be applied in Ukrainian economy for develop innovation strategy at post-crisis period.

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CONCEPTUAL APPROACH TO RECONCILIATION OF THE CONTROVERSIAL LINKS BETWEEN INTERNATIONAL ACCOUNTS

The purpose of this paper is to analyze the controversial interaction between such components of international accounts as current account and financial account balances; to develop conceptual approach to reconcile those controversial links; and to express some thoughts as to how this approach can be used in practice.

Keywords: current account balance, financial account balance, international investment position, debt-cycle hypothesis, international capital flows, balance of payments pressures.

Мета даної статті полягає в аналізі протиріч у взаємодії між такими компонентами міжнародних рахунків як рахунок поточних та рахунок фінансових операцій, що входять до складу платіжного балансу країни; розробці концептуального підходу щодо узгодження існуючих протиріч. Автор також висловлює деякі думки з приводу можливого використання запропонованого підходу на практиці.

Ключові слова: рахунок поточних операцій платіжного балансу, рахунок фінансових операцій платіжного балансу, міжнародна інвестиційна позиція, гіпотеза боргового циклу, міжнародні потоки капіталу, тиск в області платіжного балансу.

Цель данной статьи заключается в анализе противоречий во взаимодействии между такими компонентами международных счетов как

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счет текущих и счет финансовых операций, которые входят в состав платежного баланса страны; разработке концептуального подхода по согласованию существующих противоречий. Автор также высказывает некоторые мысли по поводу возможного использования предложенного подхода на практике.

Ключевые слова: счет текущих операций платежного баланса, счет финансовых операций платежного баланса, международная инвестиционная позиция, гипотеза долгового цикла, международные потоки капитала, давление в области платежного баланса.

In today complex and rapidly changing global environment, pre- and post-crisis conditions, we have a rare possibility to witness a further development in the nature of interaction between principal macroeconomic fundamentals, dynamic and economic behavior of which in some cases differ enough from what the traditional economic theory suggests. From the point of view of International Economy the most controversial relations were probably demonstrated by the macroeconomic fundamentals in the context of interaction between, so called, international accounts.

International accounts of a given economy, as they determined in the IMF's Balance of Payments and International Investment Position Manual [1], represent accounts which summarize economic relations between the economy's residents and nonresidents, namely: balance of payments, including current account, capital account and financial account balances, and international investment position, including valuation effects and other changes in volume of foreign financial assets and liabilities.

We find that this topic is extremely important, since we believe that strong and balanced global recovery after the largest financial crisis since the Great Depression is highly depend on, from one side, analysis and reconciliation of those controversial links between economies' international accounts that can not be fully explained by the traditional theoretical approach, and, from another side, on clear understanding of how the acquired knowledge can be exploited to solve the most pressing problems of the modern Global Economy.

Our purpose, thus, is to analyze the controversial interaction between such components of international accounts as current account and financial account balances, to develop conceptual approach to reconcile those controversial links, and to express some thoughts as to how this approach can be used in practice.

A number of surveys and proposals have been already made by governments, international organizations and institutions, private researchers and academic circles from Ukraine and all over the world regarding the mentioned above questions. However, the main source for the exploited in this paper idea is the papers of Ghosh et al. [2], Cline W. [3] and Suranovic S. [4].

But we go further and approach the raised above questions by integrating and jointly analyzing, from one side, the debt-cycle hypothesis and, from another, the taxonomy of capital flows and balance of payments pressures.

Traditional theoretical balance of payments identity based on the principles of double-entry bookkeeping and the summing to zero of balance of payments components suggests that the sum of current account and capital account balances should be conceptually equal to the financial account balance including reserve assets (Equation 1):

$$\mathrm{CAB} + \mathrm{KAB} = \mathrm{FAB} + \mathrm{NRA}, \qquad (1)$$

where CAB – current account balance, KAB – capital account balance, FAB – financial account balance (net lending/net borrowing), NRA – net reserve asset transactions.

Accordingly, the financial account in net terms (net lending/net borrowing) demonstrates potential and prospects for external financing of current account and capital account imbalance. Net provision of financial resources to or from the rest of the world measured by the current account and capital account balances must, by definition, be matched by the net inflows or net outflows of capital. A current account surplus, omitting capital account balance which is in many cases insignificant term, should correspond to the net lending to the rest of the world (net outflow of capital), whereas a current account deficit should reflect net borrowing from abroad (net inflow of capital).

However, the recent IMF's World Economic Outlook [5] and Global Financial Stability Report [6] statistics as well as recent papers clearly demonstrate that international capital flows more likely do not respond to the current account imbalances as it is suggested by the general balance of payments identity. Thus, in this case "The law of communicating vessels" does not work in practice properly. The most frequent explanation for this lies in the presence of statistical errors and omissions. But what if these statistical discrepancies become increasingly excessive? They are difficult to explain. "Dark Matter", "Black Holes", "Missing Links", "White Spots" in the theory? Which of the listed above possible explanations? Whatever, individual economies continue experiencing what in 1998 George Soros aptly defined as "the untenable discrepancy between the trade account and the capital account" [7].

Meanwhile in today globalized world of hot money and speculative capital, high mobility of capital flows and weakening budget constrains, there are a variety of different "pull" and "push" factors that perhaps are not aware that the international capital flows are aimed exactly in financing of the current account imbalances. For example, capital inflows, that recently have created significant new challenges for macroeconomic management and financial stability for the major Emerging market economies, can be attributed not only to the domestic developments in the recipient countries alone, such as increasing extent of financial openness, strong growth prospects, growing productivity and so on. They also reflect the role of push factors originated in the source countries (stance of monetary and fiscal policies, state of financial markets, overall economic performance) and Global economy in general (the pace and trends in the integration processes, economic and financial globalization). As a result, direction and destination of international capital flows could change significantly.

CASE No	Characterized by	Balance of Payments Pressur	Description
CASE1	CA Deficit $\geq$ Net Borrowing	Negative CA Deficit dominates	Capital Inflows to finance CA Deficit
CASE2	CA Deficit $<$ Net Borrowing	Positive Dominating Capital Inflows	Speculative Capital Inflows in search of Higher Rate of Return
	CA Surplus $<$ Net Borrowing		
CASE3	CA Surplus $\geq$ Net Borrowing	Positive CA Surplus dominates	Capital Inflows accompany CA Surplus
	CA Surplus $\geq$ Net Lending		CA Surplus is offset by Capital Outflows
CASE4	CA Surplus $<$ Net Lending	Negative Dominating Capital Outflows	Capital Outflows exceed CA Surplus
CASE5	CA Deficit $\gtreqless$ Net Lending	Negative CA Deficit and Capital Outflo may dominate on equal	Capital Outflows and CA Deficit may be equally large

The above discussion makes it necessary to define all theoretically possible combinations of the interaction between the current and financial account balances and thus circumstances which an individual economy might fits in. One way to solve this problem is to approach it from the perspective of differences in the nature and source of balance of payments pressures, usually defined as sum of net total flows of non-reserve capital and the current account balance.

Based on this approach Ghosh et al. [2] developed a flow-based conceptual taxonomy of capital flows and balance of payments pressures and presented five different circumstances (cases) according to all possible combinations of current account balance and net total non-reserve capital flows. For characteristics and description of the cases see Table 1. For visual representation of two-dimensional taxonomy and segmentation of cases see upper chart of Figure 1.

The foregoing discussion allows drawing two important observations. First, as it can be seen, both current account deficits and surpluses can be followed – with varying intensity – by both net inflows and outflows of capital, i.e. current account deficits are not necessarily accompanied by the net capital inflows, whereas the surpluses – by the net capital outflows.

Table 1.
Distinctive features of the Taxonomy's Cases

Source Compiled from Ghosh et al2008

	1989-2007			1999-2007		
	Current account balance	Total capital flows	BOP pressures	Current account balance	Total capital flows	BOP pressures
		Case 1			Case 1	
Number of observations	181	181	181	81	81	81
Mean	-6.8	3.9	-2.9	-5.5	3.8	-1.8
Standard deviation	7.5	4.1	6.4	4.0	3.1	2.2
		Case 2			Case 2	
Number of observations	447	447	447	223	223	223
Mean	-3.7	7.0	3.3	-4.1	7.7	3.5
Standard deviation	4.3	5.7	3.6	5.3	6.1	3.2
		Case 3			Case 3	
Number of observations	158	158	158	112	112	112
Mean	6.3	-1.8	4.5	7.0	-2.1	4.9
Standard deviation	5.3	4.2	3.4	5.7	4.6	3.5
		Case 4			Case 4	
Number of observations	38	38	38	20	20	20
Mean	3.6	-5.8	-2.1	5.1	-7.3	-2.2
Standard deviation	3.2	4.2	2.8	3.5	5.0	3.3
		Case 5			Case 5	
Number of observations	36	36	36	14	14	14
Mean	-3.1	-1.7	-4.8	-1.6	-1.8	-3.3
Standard deviation	3.4	1.4	3.4	1.5	1.7	1.7

Source: *Ghosh et al. 2008*

In support of their approach authors of the taxonomy presented descriptive statistics of observations over countries under particular cases (Table 2).

Although the number of countries that facing balance of payments pressures specific to Case 1 and Case 3 is substantial, the number of countries in Case 2 is equal to the sum of countries in the two previous cases. Cases 4 and 5 also include dozens of countries. Thus, other things being equal, conceptual taxonomy of capital flows and balance of payments pressures, which helped to define and visually present mentioned above circumstances, is proved to be evidently right and useful.

And the second, only two out of five cases are seem to be the most acceptable and justified from a theoretical point of view, namely Case 1 and partially Case 3. According to the Case 1, net capital flows, by and large, emerge in response to a need for current account deficit financ-

	Current Account Deficit	**Current Account Surplus**
Net Foreign Liabilities **(foreign assets < foreign liabilities)**	**Young Debtor** *- consumes more than produces* *- experiences CA deficit* *- experiences net capital inflow* *- increases net foreign liabilities* *- experiences negative net investment income (net outflow)*	**Mature Debtor** *- spends less than produces* *- rises CA surplus* *- experiences net capital outflow* *- repays net foreign liabilities* *- diminishes net outflow of investment income*
Net Foreign Assets **(foreign assets > foreign liabilities)**	**Mature Creditor** *- consumes more than produces* *- rises CA deficit* *- rises net capital inflow* *- reduces net foreign assets* *- diminishes net inflow of investment income*	**Young Creditor** *- spends less than produces* *- decreases CA surplus* *- reduces net capital outflow* *- accumulates net foreign assets* *- experiences positive net investment income (net inflow)*

Source: Compiled from *Cline (2005), Suranovic (2009)*

ing. This situation is mapped to the north-west quadrant below 45-degree line of taxonomy. And only one half of taxonomy's segment in Case 3 can also be theoretically proved. This triangular segment is located in south-east quadrant above 45-degree line and corresponds to the situation, where current account surplus is balanced by the net capital outflows. Both segments are shadowed in the presentation of taxonomy on Figure 1.

Table 2.
Descriptive statistics of current account, capital flows and balance of payments pressures

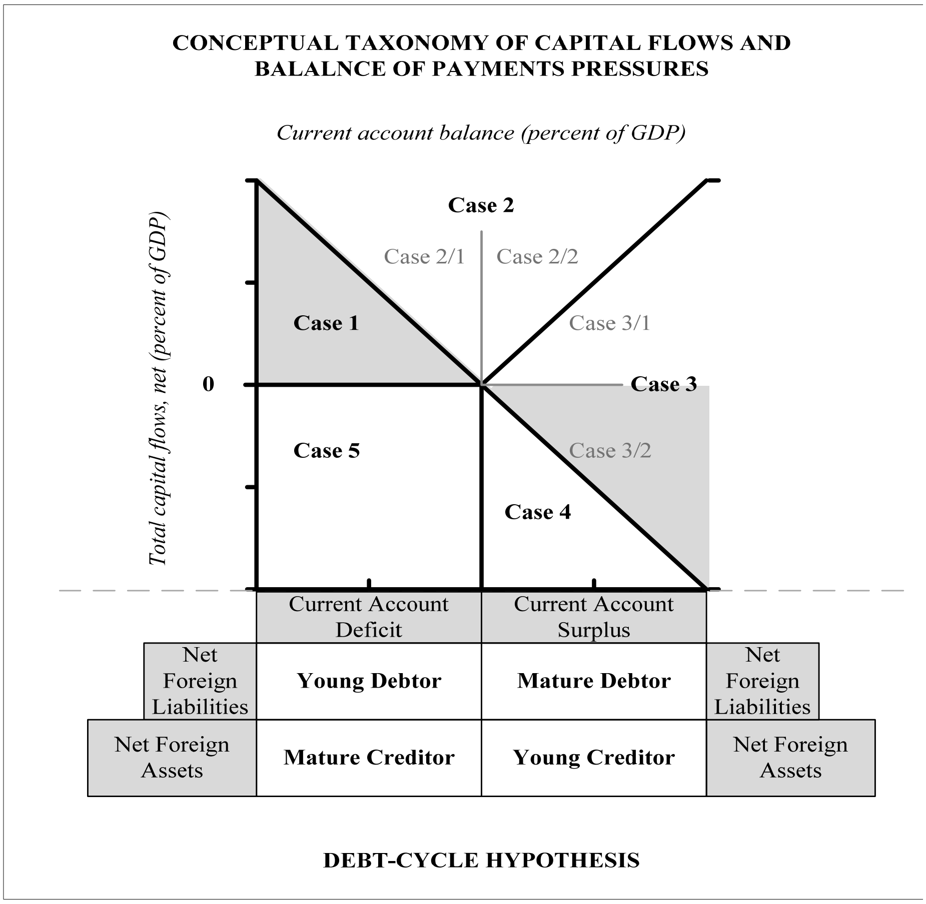

Figure 1. Taxonomy of capital flows and balance of payments pressures and Debt-cycle hypothesis – Presentation of integrated approaches (compiled by author)

At the same time, authors also emphasize two caveats of the approach. They discuss that the two dimensional taxonomy does not left the room for so necessary under modern circumstances consideration of the net international investment position dynamics. And while authors analyze how net foreign asset position modify the appropriate for each of the cases policy responses when relevant, and include controls to take account of it in their empirical examination, we propose our solution to address this caveat and, at the same time, a conceptual approach aimed to understand modern pattern of current account and financial account balances reconciliation.

Our idea is to integrate the discussed above conceptual taxonomy of capital flows and balance of payments pressures and debt-cycle hypothesis (the lower chart of Figure 1 and Table 3), a conceptual framework that, from one side, relates current account balance to the dynamics of economy's net international investment position, whereas, from another side, links all possible

Debt-Cycle Stages		Characterized by		Experience Capital Flows which according to Taxonomy correspond to			
I	Young Debtor	CA Deficit	Net Foreign Liabilities	Case 1 – Net Capital Inflows	Case 2/1 – Net Capital Inflows	Case 5 – Net Capital Outflows	
				and lead to			
				Increase	Increase	Decrease	
IV	Mature Creditor	CA Deficit	Net Foreign Assets	Case 1 – Net Capital Inflows	Case 2/1 – Net Capital Inflows	Case 5 – Net Capital Outflows	
				and lead to			
				Decrease	Decrease	Increase	
II	Mature Debtor	CA Surplus	Net Foreign Liabilities	Case 2/2 – Net Capital Inflows	Case 3/1 – Net Capital Inflows	Case 3/2 – Net Capital Outflows	Case 4 – Net Capital Outflows
				and lead to			
				Increase	Increase	Decrease	Decrease
III	Young Creditor	CA Surplus	Net Foreign Assets	Case 2/2 – Net Capital Inflows	Case 3/1 – Net Capital Inflows	Case 3/2 – Net Capital Outflows	Case 4 – Net Capital Outflows
				and lead to			
				Decrease	Decrease	Increase	Increase

combinations of current account deficits/surpluses and net foreign asset/liability positions to the certain stages of a country's development.

Following Suranovic S. [4] and Cline W. [3], it is possible to define four situations that any country can match in the corresponding period of its development: i) young debtor nation, ii) mature debtor nation, iii) young creditor nation, and iv) mature creditor nation. Table 3 demonstrates stages of the international debt cycle as well as their optimal theoretical characteristics in the context of balance of payments components.

Table 3.
Debt-cycle stages and their characteristics

From one side, debt-cycle hypothesis includes only traditional net capital flows which offset correspondent current account deficits or surpluses, and yet relates the latter to the dynamics of economy's net international investment position. From another side, taxonomy demonstrates a greater variety of combinations for differed in nature and intensity net capital flows related to the current account deficits and surpluses. From this perspective, it seems to be quite reasonable to integrate both approaches on the basis of their direct connection with the current account balance (Figure 1).

Figure 1 gives a comprehensive overview of all possible combinations between such components of balance of payments international accounts as current account balance, financial account balance and net international investment position.

Analysis of the presented scheme took place in two steps. First, individual stages of the debt-cycle hypothesis through the corresponding current account balances were related with all possible according to taxonomy capital flows and balance of payments pressures directions and scales of net capital flows. Then, we estimated the effect of net capital flows on the dynamics of net international investment positions specific to one or another debt-cycle stages. Table 4 summarizes the results of undertaken analysis.

Table 4.
Results of the joint analysis of Debt-cycle hypothesis and Taxonomy of capital flows and balance of payments pressures

Thus, by integrating taxonomy of capital flows and balance of payments pressures, from one hand, and debt-cycle hypothesis, from another, we developed conceptual approach that on the basis of triangular interconnections between main components of the international accounts allows (i) to reconcile controversial interaction between such components of balance of payments as current account and financial account balances, and (ii) to define different circumstances according to all possible in practice combinations of current account balance and net total non-reserve capital flows that can not be fully explained by the traditional theoretical approach.

Another extremely important outcome of the developed approach is that it emphasizes the crucial role of the net international investment position (net foreign assets/ net foreign liabilities) in reconciliation of the controversial links between current account and financial account balances. Otherwise, achievement of this goal, using only the balance of payments traditional theoretical identity, would be impossible.

Indeed, since balance of payments data reflect only the volume of transactions over a certain period of time, quarter or year, they represent the flows and, therefore, cannot be used as true ground for reconciliation. Together with data on flows for these purposes one should use the cumulative over time data on the volume of performed transactions, i.e. indicators of stocks. Thus, in determining of different circumstances according to all possible in practice combinations of current account imbalances and international capital flows, that traditional economic theory fails to explain, one should also take into account net international investment position.

In this connection, developed conceptual approach may definitely have at least one practical implication. By relating different in nature, scale and intensity net capital flows to the net international investment position, it enables to track the dynamics and direction of the latter more accurately, than it would be possible on the basis of the traditional theoretical approach. Indeed, traditional theoretical analysis supposes quite direct effect of current account deficits and surpluses on net international investment position through only two possible net capital flows – inflows and outflows, respectively. Whereas presented above concept provides much more diversified approach.

In addition, more accurate dynamics of the net international investment position can then be placed within the different combinations of factors negatively influencing sustainability of current account balance in each of the debt-cycle stages. And since the stabilized at a certain level ratio of net international investment position to GDP is considered by many researchers as one of the more operational measures of current account balance sustainability, our approach, through the more in-depth modeling of interaction between such components of international accounts as current account balance, financial account balance and net international investment position, allows a more precise interpretation of the external sustainability in different circumstances and conditions.

Moreover, since the international accounts may be considered as the concentrated reflection of all the existing problems of individual economies in general or their domestic sectors economic development, as evidenced by the System of National Accounts [8] and the Balance of Payments [1] general identities, the presented paper is supposed to have an important theoretical significance, as well as practical implications.

All conclusions drawn from the undertaken analysis are intuitive and narrative, and therefore require further verification and justification, based on extensive use of statistical material and conduct of econometric research.

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GLOBAL IMBALANCES BEFORE AND AFTER THE GLOBAL CRISES

В цій статті розглядається визначення, довгострокова динаміка та основні причини виникнення глобальних дисбалансів. Визначається роль глобальних дисбалансів у розгортанні Глобальної кризи, а також основні напрями зменшення глобальних дисбалансів.

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В статье рассматриваются определение, долгосрочная динамика и основные причины возникновения глобальных дисбалансов. Определяется роль глобальных дисбалансов при прохождении Глобального кризиса, а также основные направления уменьшения глобальных дисбалансов.

This article examines definition, long-run trends and key factors behind global imbalances. It defines the impact of global imbalances on the Global crises and optimal ways of rebalancing.

External imbalances are a central theme in international economics and a powerful driver of change in economic history. Under the gold standard, trade balance adjustment was typically very slow and costly for deficit countries, which triggered a search for a better international monetary system. During the interwar period, growing imbalances ended in a dismantling of international free trade and monetary arrangements, adding to geopolitical tensions in the run-up to the Second World War. In the early 1970s, tensions over external imbalances caused of a fundamental overhaul of the international monetary system, marking the end of the Bretton Woods system. In the 1980s, widening current account positions led to intensive international coordination with concrete policy commitments under the G5/G7 Plaza (1985) and Louvre (1987) agreements focusing on exchange rates.

In the 1990s, external imbalances in emerging economies were a key source of concern, with a series of financial crises sweeping across nearly all large emerging economies. Today, the world again faces large external imbalances. Aggregate current account positions as a share of global output are twice as large as in the mid-1980s. Gross foreign asset positions have increased fourfold since this period, while net foreign asset positions have increased threefold. Reserve accumulation has reached a never-seen pace in the past decade, a seeming paradox in a world of increasingly freely floating exchange rates. The fundamental operation of the international monetary system is again under discussion, and the strategic role of the IMF within that system is being debated.

Current external imbalances have appeared in a fundamentally new economic landscape with three key features. First, the global economy includes new players that were once at the periphery of global trade and financial flows. Ten years ago, the global economic sphere was not truly global. It was limited largely to a tripolar world consisting of the United States, Europe and Japan. Emerging markets were largely peripheral areas of production and in some cases exotic niches for financial investors. Economic liberalization and post-cold war political transformation have removed borders between the centre and the periphery. Falling transportation costs, the growing use of information technology and deepening financial markets have reduced spatial and temporal distances. The slicing up of production chains has allowed emerging economies to specialize in specific parts of the value-added ladder.

Second, intensifying financial links have altered the character of globalization. Ten years ago, international financial flows, at least in the emerging world, were largely the counterpart of trade flows. Today, financial globalization has prompted a strong increase in gross financial flows. Gross international asset positions rose above global GDP in the early 2000s and are now around 1.3 times as large. This surge in international portfolios was made possible by a strong rise in overall financial wealth, coupled with a secular decline in investors' home bias and accelerated by financial innovation.

Third, the growing imbalances occurred in a phase of improving macroeconomic and financial conditions, with record high economic growth and record low financial market volatility. Ten years ago, the global macroeconomic environment was still surrounded by considerable uncertainty. High business cycle volatility, financial crises in emerging markets (Asia, Russia, Brazil, Turkey), instability in pockets of the developed industrial financial markets (Long-Term Capital Management) and concerns about inflation still plagued the global economy. From 2004 to at least until early 2007 the global macroeconomic environment looked very stable, with global economic growth around 5% per annum over the period 2004-07. Business cycle volatility decreased, at least among the industrial countries. Inflation was tame in spite of the strong growth environment. Financial market volatility and risk aversion were at record lows. Having said that, a number of market corrections (for example in May 2006 and February 2007) as well as the financial market turmoil that started in August 2007 signaled that markets considered some repricing of risk necessary. Still, emerging markets appear to have been more resilient to financial turmoil in the mid-2000s than a decade earlier.

The emergence of new players, the deepening financial globalization and the stable macroeconomic environment complicate the assessment of imbalances. Large imbalances could be seen as an equilibrium, market-driven outcome in a world operating under a new paradigm.

A good understanding and close monitoring of global imbalances are important for two reasons. First, large and protracted external imbalances can be linked to distortions in economic decision-making, especially to the extent that such imbalances deviate from the levels at which they would be in a world with full price flexibility and perfect competition. Such deviations may be caused by public policies or private sector decisions. One example could be the unprecedented pace of reserve accumulation – an anachronism in an era with a never-seen share of currencies with floating exchange rate and central banks targeting inflation – which may create distortions in asset prices. Excessively easy global liquidity conditions may fuel unwarranted risk taking and lead to bubbles in global asset markets. Exchange rate pegging on the part of some emerging economies with large imbalances may lead to sustained deviations from equilibrium. These policy choices may have an impact on private sector decisions and on financial market prices, including on the returns on assets held by reserve accumulators.

Second, external imbalances entail risks, both under a scenario of unwinding (disruptive macroeconomic developments) and under a scenario of further increasing imbalances (protectionist pressures). An unwinding is likely to affect all areas of the global economy, given the unprecedented scale and unique geographical reach of the imbalances. The large stock of international financial portfolios increases the potential fall-out from large asset price changes. Financial transmission channels have become very important, as illustrated in February 2007, when a shock in a "remote" segment of the global financial markets (Shanghai's stock market) propagated to the entire spectrum of global financial markets, or in July-August 2007, when tensions in a specific sub-segment of the US financial markets (mortgage loans) triggered a generalized re-pricing of risk across nearly all asset classes.

But risks may also appear if the external imbalances continue at present levels. For instance, the persistence of imbalances may have induced markets to take a complacent view of these imbalances and to take excessively risky investment positions. Also, the existence of imbalanced trade flows intensifies calls for protectionist responses.

At the outset, it would seem that one can define global imbalances simply as "widening current account deficits or surpluses". This notion seemed to underpin the early work on global imbalances, in particular in the late 1990s and early 2000s, when the academic and policy community focused mainly on understanding the drivers and sustainability of the US current account deficit. While such a definition would be convenient, the focus on current account deficits or surpluses does not do full justice to the phenomenon of global imbalances. In particular, it misses out the important financial dimension of imbalances, as captured for instance by gross and net international capital flows and the build-up of international investment positions. Also, a focus on widening deficits or surpluses is not helpful in assessing whether trends are "unbalanced" or "balanced". The concept of imbalances suggests that positions are not in line with their long run equilibrium value. Therefore, a definition of imbalances should arguably contain some element to assess the "unbalanced" versus "balanced" nature of the external positions.

With these considerations in mind, we define global imbalances as: External positions of systemically important economies that reflect distortions or entail risks for the global economy.

The definition includes several elements:

• "External positions": this refers not only to current account balances but also to financial positions. This is crucial in view of financial globalization, which implies that the financial dimension is more than the current account dimension with an inverted sign.

• "Systemically important economies": these are economies whose macroeconomic and financial developments may have a significant impact on the global economy. While the concept of systemic importance is not fully unambiguous, it is useful because it contains the notion that economies participate in global goods and financial markets, and that may have a global impact either because of their size or because of other factors (e.g. important financial centers, key regional players).

• "Reflect distortions": the build-up of external positions may (partly) reflect distortions, i.e. deviations from the equilibria that would prevail in an environment of full price flexibility and perfect competition. The distortions can be introduced by economic policies, for instance fixed exchange rate policies, structural policies (e.g. lack of economic flexibility), or macroeconomic policies (e.g. public saving policy-induced distortions in private saving decisions or the influence of cartels on oil prices).

• "Entail risks for the global economy": the existence of external positions may pose risks for the global economy, both under a scenario of unwinding (risk of disorderly unfolding with

	1980		1990		1995		2000		2008	
	Billion US dollars	% world GDP	Billion US dollars	% world GDP	Billion US dollars	% world GDP	Billion US dollars	% world GDP	Billion US dollars	% world GDP
Deficit	173.2	1.48	296.2	1.30	342.4	1.16	681.7	2.12	1641.0	2.69
Surplus	115.0	0.98	188.1	0.82	285.5	0.96	504.9	1.57	1832.5	3.00

disruptions to macroeconomic and financial stability) and a scenario of further increasing imbalances (risk of a protectionist backlash). The reference to distortions and risks captures the extent to which external positions are unbalanced, as opposed to balanced. These two notions are particularly helpful from a policy viewpoint [9].

Since the outbreak of the world financial crisis, the phenomenon of global imbalances (the coexistence of large current account deficits and surpluses in the global economy) has taken center stage in the debate on the international economic outlook. Academic and policy scholars have pondered the nature of the imbalances and have offered contrasting views about their role in the inception of the crisis, their potential threat to future global economic stability, and the policy measures that should be taken towards what has been termed the "rebalancing" of the global economy.

Global imbalances are not a new phenomenon. In fact, the 1980s witnessed a situation qualitatively similar to that observed in recent years, characterized by large U.S. current account deficits that were persistently funded by other countries. There are two important differences, however. One is the magnitude: the U.S. deficits of the 1980s did not reach the scale of those observed more recently, and the episode was also briefer. The other is the geographic distribution: in recent years, the U.S. external deficits, as well as those of other advanced countries, have been funded primarily by emerging economies, unlike in the 1980s, when such funding came mostly from other rich countries (with Japan as the primary lender) [10; 18].

The global imbalances phenomenon has become the object of special attention since the middle of the current decade, because it reflects a whole set of problems which could not be explained by means of the standard economic theory. The problems we refer to appear as a structural break in the international economic relationships at the beginning of the new millennium and can be described as follows: a) big and increasing deficits in the US current account balance; b) big surpluses in the current account balances of China, Southern Asia and oil exporting countries; c) a massive accumulation of reserves in the surplus countries, accompanied with resistance to appreciate their currencies; and d) massive capital inflows in the US economy and low world interest rates (table 1).

Table 1

Disequilibria of the current account balances [3, p.27]

Table 1 shows the evolution of the world trade balance since 1980. In 1980 the total sum of world current account deficits rose to 173,200 million dollars, less than 1.5% of the world GDP, whereas the addition of surpluses reached 115,000 million dollars, 0.98% of the world GDP. Although during the nineties, absolute values of disequilibria increased, their relative values decreased. However, from the mid-nineties, the absolute and relative value of these disequilibria increased rapidly. In 2008, accumulated deficits rose to 1.6 billion dollars (2.7% the world GDP) and accumulated surpluses exceeded 1.8 billion dollars (3% the world GDP).

Global imbalances are commonly presented as a generalized phenomenon on a global scale, where a large number of (developed) countries with deficits in their current account balances (surpluses in their financial account balances) have to confront with a large number of (developing) countries with current account surpluses (financial account deficits) [3].

In other words, recent global imbalances involve a flow of capital from poor countries to rich countries, against the prediction of conventional economic theory that developing countries should be net capital importers. These distinguishing features of the global imbalances of recent years raise the presumption that the factors behind them are likely different than those at play in the 1980s. Understanding such factors is important to assess how global imbalances may evolve after the world crisis.

In spite of their recent rise to prominence in the debate on the roots of the crisis, global imbalances are hardly a new feature of the world economy. The U.S. current account deficit grew virtually without interruption since the mid 1990s, to exceed 1% of world GDP after 1999. It peaked in 2005 and 2006 at over 1.5 % of world GDP. Thereafter, the U.S. external deficit declined, to about 1.2% of world GDP in 2008, and preliminary estimates suggest that it fell under 1% in 2009. The world economy is obviously a closed system, and the deficits of some countries have to be matched by the surpluses of others. During the late 1990s, the counterparts to the U.S. deficits were the large surpluses of Japan and emerging Asian countries, excluding China, as well as the surplus of the EU during the years of the Asian crisis (1996-1997). After 2000, however, the situation changed radically. While the U.S. remained the country with the biggest current account deficit relative to world GDP, the biggest surpluses were now those of

China and oil-exporting countries. In fact, since 2005 China's surplus has exceeded the combined surpluses of Japan and the rest of emerging Asia, and during 2007-2008 the bilateral deficit with China accounted for an increasing fraction (around 40%) of the U.S. overall current account deficit [1; 2;18; 19].

The main issue with large current account deficits is obviously their sustainability, that is, whether they will be met by sufficient, timely and affordable inflows of foreign capital. In the case of the US for instance, it bears on the questions of (i) the size of the financial obligations that the deficit reflects, (ii) the availability of income payments and receipts that will eventually be paid out of the economy's production—with the risk of reducing current consumption and investment, and (iii) the confidence in creditor nations or in the low probability of sudden swings in the mood of foreign investors. Macroeconomists usually come to one of the following two opposite conclusions:

+ Global imbalances represent an anomaly and a major threat to the stability of the world economy. First, they may reflect domestic problems or distortions (lack of social insurance, poor firm governance or financial repression in surplus countries and excessive public borrowing in deficit countries); or problems with the international monetary system and exchange rate regimes (large accumulation of reserves for self-insurance purposes). Second, they may lead themselves to significant domestic problems such as capital flows volatility, especially when the exchange rate is fixed. Action should therefore be taken to cut the US external deficit and China's external surplus. Both countries should adjust their saving rates (an increase in the US and a decrease in China). If one assumes that there is an upper limit to growth in China, an increase in the growth of domestic demand must be associated with a decrease in the growth of foreign demand, even not in the exact same proportion. This would require a change in relative prices.

+ Global imbalances may not be as threatening as they appear because they reflect a general trend in world economic history and the structural changes associated with globalization. In a way, they are just the logical outcome of a world that is increasingly characterized by the increased integration of real and financial markets. The low U.S. saving hypothesis should be seen therefore as unconvincing, not least because the national account data underestimates savings by excluding purchases of consumer durables and expenditure on education and research and development from the definition, and because the U.S. current account deficit started in the 1990s—precisely when the external account balance swung into surplus [15].

Since the current account surplus is identically equal to the difference between saving and investment, the trends in these two variables in different countries and regions provide some information about the sources of changes in their respective external imbalances. In the case of the United States, the most remarkable factor is the uninterrupted fall in saving after 1997, at an accelerating pace since 2006. As a result, in 2008 the saving rate reached its lowest level in two decades, a full seven percentage points below its value in 1990. This reflected both declining public saving – owing to expansionary fiscal policy and falling private saving facilitated by financial innovation and improved access to consumer credit. In turn, investment followed a cyclical pattern, with peaks in 1999 and 2006. Comparison of the trends in saving and investment reveals that from the end of the 1990s to 2003 falling saving was the principal cause of the increasing external deficits of the U.S., while after that year the trends in the current account were dominated by those of investment rates – increasing until 2006 and decreasing later. The low saving of the United States stands in sharp contrast with the extremely high levels observed in China, where saving currently accounts for over half of GDP. Since 2000 both saving and investment rates rose in China, but the former did so more quickly. The result has been a major increase of China's current account surplus, which peaked at 10 % of GDP in 2007. Aside from the U.S., in other industrial countries saving and investment rates have undergone only relatively modest changes. In the EU, the slightly decreasing trend in saving over the last decade led to a gradual reduction, and eventually a reversal, of the area's current account surplus. In Japan, both saving and investment rates followed a downward trend over the 1990s, but they remained fairly stable in the last decade, during which the current account continued to show a modest surplus.

The trends in saving and investment in industrial countries stand in contrasts with those observed in Asian and oil-exporting countries. In both groups, saving followed an upward trend. In Asia this reflected rising saving in the region's emerging markets, while in oil-exporting countries the reason was the persistent rise in world oil prices. Rising saving led to widening current account surpluses in both groups of countries especially among oil exporters, whose combined surplus exceeded 15 % of GDP in 2008 [7; 18].

The roots of global imbalances have attracted massive interest from academics and policy analysts. We can distinguish two basic views:

1. The disequilibrium approach. It considers global imbalances an unsustainable phenomenon, whose impending correction must entail U.S. current account adjustment and a major depreciation of the dollar. These could come in the form of a sudden stop of capital flows into the U.S. and collapse of the exchange rate.

Excluding the possibility of default and abstracting from capital gains and losses on external assets and liabilities, the intertemporal budget constraint of a country dictates that its net liability position against the rest of the world at any given time cannot exceed the present value of its future current account surpluses.

Whether the deficits reflect intertemporally-optimizing behavior or, as argued by many observers, excessive private and public spending, the fact is that the U.S.'s net foreign asset position has undergone a steep decline. From a creditor position amounting to 10% of its GDP at the beginning of the 1980s, it has turned into a debtor position that was approaching 25% of GDP in 2009. In absolute terms, this is the biggest debtor position in the world. According to the disequilibrium approach, this is an unsustainable trend, and the country at some point needs to change the sign of its trade balance. This in turn entails a depreciation of the dollar to increase U.S. net exports.

The disequilibrium view dictates that the correction of the external imbalances demands a real adjustment – a reversal of the trade balance. But recent literature has underscored a potentially important role that financial adjustment can play. Such role arises because the change in the net foreign asset position of a country consists of (1) the trade balance and (2) the total return on net foreign assets, inclusive of changes in the prices of assets and liabilities. This means that the depreciation of the dollar has a double effect on the external asset position of the United States. On the one hand, it generates a real adjustment, through an improving trade account balance. On the other hand, it generates a financial adjustment through capital gains (losses for the rest of the world) [11; 18].

2. The equilibrium approach. It takes a diametrically opposed perspective, according to which global imbalances represent an equilibrium situation that, absent changes in its deep determinants, can be self-sustaining. The equilibrium approach explains global imbalances as the result of structural factors and/or policies adopted by economic authorities in other countries that have led to a steady accumulation of assets on the U.S. by the rest of world. Absent changes in such structural factors and policy choices, global imbalances could persist. Although details vary in different versions of the equilibrium approach, one feature common to all of them is the emphasis on the capital account, in contrast with the emphasis placed on the current account by the disequilibrium approach.

Within this general perspective, it is necessary to distinguish two main versions. The first one underscores international asymmetries in the supply of and/or demand for financial assets. Its key ingredient is the financial underdevelopment of emerging countries, which prevents them from generating financial instruments attractive for their savers – because the yields on local assets are too volatile, or because of the expropriation risks that they bear, as made clear by the recurring financial crises of the 1990s. The result is that international savers tilt their portfolios towards assets of countries with more advanced financial markets – the United States in particular. A growth acceleration in emerging countries (or an oil price boom) that increases their wealth and saving the ultimate causes of the so called 'global saving glut' – leads them to expand their holdings of U.S. assets. The only way this can be achieved is through U.S. current account deficits that raise the volume of U.S. assets available to international investors. This process can persist as long as its driving force the underdevelopment of financial markets in emerging countries – remains unchanged. As a result, capital flows 'uphill', from poor to rich countries.

An analogous line of reasoning stresses international asymmetries in the demand for assets, rather than their supply. These may arise from the limited appropriability of the returns on emerging-market assets or, alternatively, from the shortcomings of the social protection system of these countries, which force individuals to save more for retirement or to protect themselves from the risk of unemployment. In either case, the result is that savers in emerging countries tend to save more than those in industrialized countries. In a context of international financial integration, this leads to a global equilibrium in which emerging countries acquire a creditor position, whereas advanced countries are net debtors. If the ultimate determinants of this equilibrium– the underdevelopment of financial markets, or the weakness of the social protection system, respectively – remain unaltered, global imbalances and uphill capital flows can persist indefinitely [4; 5; 12;18].

The second version of the equilibrium approach emphasizes policy makers' choices as the main cause of the accumulation of external assets by emerging markets. Again there are two variants of this argument. One attributes foreign asset hoarding to the so-called "new mercantilist" development strategy: the attempt of a number of emerging markets– particularly in East Asia, with China among them–to pursue export-led growth. Such objective calls for an undervalued real exchange rate to preserve export competitiveness. The best way is to achieve this is by compressing domestic spending, particularly consumption, which inevitably leads to persistent current account surpluses and foreign reserve accumulation. This strategy defines the so-called 'Bretton Woods II' system, in which emerging Asian countries play the role of producers of last resort, and advanced countries – led by the United States– are the consumers of last resort whose current deficits are financed by capital inflows from Asia.

Another variant of this argument justifies the accumulation of external assets as a precautionary policy. In the absence of mechanisms for international diversification of aggregate risk, emerging countries integrated in the global financial system need to resort to self-insurance against external shocks such as disruptions of international capital flows– of the kind observed in the crises of Asia and Russia in the 1990s. They accumulate external assets, preferably short-term instruments, from which they can draw in the event of a 'sudden stop'. Unless the global financial system generates new international diversification mechanisms, this precautionary foreign asset accumulation is unlikely to stop. The massive accumulation of international reserves of emerging economies during the last decade seems to confirm that the policy of deliberate hoarding has played an important role. Between 1998 and 2008, reserve holdings of the latter, measured at constant prices, increased fourfold, while those of industrial countries rose only 50 percent. As a result, the volume of international reserves held by emerging markets at present greatly exceeds that of industrial countries. For example, at the end of 2008, China's foreign reserve stock was almost as large as that of all industrial countries combined. The rest of emerging Asia has also increased dramatically its reserve holdings. But the phenomenon is not confined to Asia; Latin American economies (with Chile at the top) and oil exporting countries have also accumulated large volumes of international reserves over the last decade.

Net purchases of U.S. assets by official entities (central banks and other government bodies) from emerging markets in Latin America, Asia and the Middle East have grown increasingly large in the 2000s. After the onset of the crisis in 2007, they became the sole source of inflows from these countries. However, over the decade as a whole the total volume of emerging-market official inflows to the U.S. was roughly on par with that of private inflows.

Thus, the big role played by private capital in the total flows from emerging markets in the run up to the crisis seems to lend some support also to the first version of the equilibrium approach summarized earlier, which explains global imbalances primarily on the basis of asymmetries in the supply and/or investors' demand for international assets.

The role of global imbalances in the inception of the world crisis has been hotly debated. Some observers view the imbalances as one of the key causes of the crisis, and make their elimination an urgent priority to safeguard the stability of the world economy. Others think that the imbalances have played, if anything, a secondary role, and that the roots of the crisis have to be found instead in the shortcomings of financial regulation, and possibly also in misguided macroeconomic policies in rich countries, both of which may have caused, in turn, a widening of global imbalances [18].

The literature has identified a number of channels through which monetary policy might have contributed to the build-up in financial imbalances. Most of these are thought to have worked through policy rates that were kept low for too long. Loose monetary policy (a low short-term rate) may have (i) reduced the cost of wholesale funding for intermediaries, leading those intermediaries to build-up leverage; (ii) may more generally have caused banks to take more risks, including credit and liquidity risks; and (iii) may have increased the supply of and demand for credit (mortgages), causing asset (house) prices to rise.

Rising global imbalances are associated with a greater dispersion of current account positions across countries and larger net flows of capital between countries. At the level of an individual country, a current account deficit is matched by net capital inflows, as foreign investors build up claims on the domestic economy. High capital inflows in turn (i) can reduce the cost of wholesale funding for domestic banks in international markets; (ii) may reduce long–term interest rates (and thus compress spreads), causing financial institutions to lever up and investors to "search for yield"; and (iii) may increase the total supply of credit to the domestic economy, causing local asset (house) prices to rise.

Supervision and regulation of the financial system is a key means to prevent crises, by controlling moral hazard and discouraging excessive risk-taking on the part of financial institutions. Inadequate supervision and regulation are therefore prime candidates to have caused the global financial crisis [14].

According to the first view, global imbalances helped trigger the financial crisis because they put international financial intermediation under stress. On the one hand, the financing of large international imbalances forced financial institutions to intermediate huge masses of resources. On the other, the imbalances caused a decline in world interest rates, which encouraged credit growth and investors' 'search for yield'.

Under weak financial regulation, these two forces fueled excessive risk-taking by financial intermediaries and asset bubbles, whose explosion triggered the global financial meltdown. Upon closer scrutiny, however, these arguments seem questionable. It is not obvious why the stresses on the financial intermediation system should relate to net capital flows, which are the counterpart of current account deficits. It seems more logical to think that such pressures depend, if anything, on the volume of gross resources intermediated, which bears no systematic relation with net flows. In this regard, it is important to note that the order of magnitude of the U.S. current account deficit (around of 5-6 % of GDP at its peak) is very modest in relation to the size of its financial system, so that changes in the deficit of a few percentage points of GDP are very unlikely to have any material effect the pressures that the financial system has to withstand.

The geography of the financial crisis is not supportive of this view either. Banks in surplus countries, such as Switzerland or Germany, were as involved as U.S. banks in the creation of supposedly risk-free assets through concentration of risks. A more plausible story is that banks that engaged in such strategies with the help of weak regulation got into serious trouble, whatever the sign of the current account of the countries in which they were based. It is also unclear how global imbalances would have caused the decline in world interest rates. The persistent decline in real interest rates is very likely related to the 'global saving glut' underscored by Bernanke. But it is not obvious how it should relate to the increased dispersion of current account deficits across the world, which is what global imbalances are about. Thus, while low real interest rates offer a fertile ground for the formation of bubbles, it is not obvious that they would necessarily rise if global imbalances were somehow eliminated.

Some observers have also argued that the ability of deficit countries, notably the U.S., to finance large imbalances through foreign borrowing at low cost allowed them to postpone the correction of expansionary macroeconomic policies that likely helped fuel asset price bubbles. More importantly, the boom in asset prices contributed to widening the external gap in deficit countries, by encouraging consumption as well as residential investment – with the help of financial innovations that allowed households to increase spending in the face of rising net worth.

In theory, large current account imbalances are not themselves a problem. Current account imbalances can reflect the optimal responses of economic agents to changes in, e.g., the anticipated profitability of investment. In reality, however, the experience of past crises has shown that large external imbalances often represent a major source of aggregate fragility. Economies with large current account deficits may be left at the mercy of swings in capital flows. Also, large external imbalances facilitate international contagion when their funding takes the form of volatile short-term capital.

On a global scale, the crisis led initially to an abrupt fall of international capital flows, and to the collapse of world trade and oil and commodity prices. The latter in turn caused a large reduction in the surplus of oil-exporting countries, which is estimated to have fallen from over 2% of world GDP in 2008 to about 0.5% in 2009. But in some important ways the impact of the crisis was very different than expected. Instead of the depreciation that many had predicted, the dollar experienced an initial appreciation, as a result of international investors' 'flight to safety' that led them to shelter in low-risk U.S. Treasury debt, at the expense of all risky assets – from corporate debt to emerging-market assets. The dollar became the reserve currency of last resort, and the government of the United States the borrower of last resort. Paradoxically, the United States, undeniably the source of the crisis, turned out to be also investors' last refuge.

Global imbalances may well be restored after the crisis. To the extent that the deep determinants of the imbalances remain largely unchanged, the post-crisis configuration of current account deficits might not be very different from the pre-crisis situation. Several ingredients contribute to make this a likely scenario. First, from a global perspective, the crisis has underscored the effectiveness of the self-insurance strategy pursued by emerging markets, as countries that had amassed big volumes of external assets managed to weather the global storm better than the rest. In fact, this may encourage these and other countries to intensify their accumulation of foreign assets, especially given the fact that even at the height of the turmoil – some emerging economies were reluctant to use up their vast reserves because they feared weakening the confidence of international investors. This in turn may prompt them to hold even bigger stocks of liquid foreign assets in the future.

Second, in the same vein, barring deep – and, to date, unforeseen – reforms to speed up the development of emerging countries' financial markets, savers from those countries will very likely continue to demand large volumes of financial assets from more developed markets. Moreover, while international savers may increase their degree of diversification away from U.S. assets, a massive sell-off of dollar assets by large investors (such as China) is unlikely, as they would incur big capital losses on their asset holdings. These global factors imply that the "uphill" pattern of capital flows is likely to persist. In turn, from the U.S. perspective, a quick rebound of the economy from the crisis could lead the way to the recovery of world trade and commodity prices, and firm up the comeback of capital flows from emerging countries. Further, the record-high U.S. public deficits could well prevail over the rise in private saving prompted by the fall in asset prices and household net worth, halting (although perhaps not reversing) the decline of the current account deficit.

For small developing countries, this scenario would come close to 'business as usual', at least for some time. In a context of rapid recovery, Asian emerging countries could continue to pursue their export-led growth strategy based on currency undervaluation, fueling further the return of global imbalances. However, one potentially important difference is that, in the post-crisis world, improved financial regulation, as well as enhanced investor awareness, will likely bring to an end the underpricing of risk that characterized the run up to the global financial crisis. This means that the cost of capital, especially for developing countries, is likely to be higher than it was in the pre-crisis world, so that the efficiency of investment will become a more pressing concern from the perspective of developing-country growth.

Though less likely, other forces might push to significantly narrow global imbalances. From an international perspective, the new mechanisms of international risk diversification (such as the contingent credit facility recently established by the IMF) might begin to reduce the incentives for self-insurance and stop the buildup of foreign reserve stocks in emerging economies. This in turn would bring a double benefit. It would relieve these economies from the need to hold low-yield short-term foreign assets and allow them to diversify their portfolio into more profitable investment opportunities. Moreover, for the global economy a reduction in developing-country reserve holdings would help limit the excess demand for safe assets that many observers place at the core of the crisis. It would also contain the buildup of global systemic risk arising from the 'fire sale' externality that liquidation of major-currency assets by countries in distress would impose on other countries.

A shift in portfolio diversification by international savers away from U.S. assets would also contribute to a narrowing of global imbalances. While such trend has been at play since the late 1990s, it could accelerate in the face of investors' renewed doubts about the future performance of the U.S. economy and the dollar, or if the recent turmoil in the U.S. financial system – which rendered worthless a great volume of assets – were to weaken the perceived appeal of U.S. assets. However, there is little indication that such accelerated shift is taking place. An early withdrawal of the fiscal stimuli by the economic authorities in the U.S. and other advanced countries would have similar consequences. Such course of action, however, could also delay the world recovery, and put in jeopardy the export-led growth strategy pursued by a number of emerging markets. Although China and other major emerging countries have so far weathered the crisis reasonably well, they did so in the context of aggressive fiscal stimuli in advanced countries. A reversal of the fiscal expansions in rich countries, and a longer-lasting global slump, would imply a further slowdown in global demand for developing country exports.

From the perspective of low-income countries, the increase in import demand from middle income economies could pick up some of the slack, and help them offset, at least in part, the slowdown in advanced economies' export demand. However, the export-led growth strategy pursued by a number of middle-income emerging countries, notably in East Asia, would come under stress in a context of reduced global demand [13; 16; 18].

One way out of this impasse would be for surplus emerging markets to rebalance their economies through an increased reliance on inward-looking growth. Such shift may have already started, as shown by the massive fiscal stimulus implemented by China in 2009, one of whose stated objectives was to ease the economy's dependence on world export market growth. In the short run, the stimulus has helped China maintain its high growth rate, but mounting concerns have arisen recently regarding the (in)efficiency of the expenditures involved, as well as their possible contribution to the emergence of asset bubbles. In general, an orderly rebalancing of emerging economies with strong external positions and sound macroeconomic frameworks would likely involve an exchange rate appreciation upfront to reduce the accumulation of foreign assets and encourage domestic demand. Policy measures attacking entrenched distortions, such as those causing excessively high saving rates in both the household and corporate sectors, and those hampering financial development would help in this regard. The high saving rates of China and other emerging Asian countries do not just reflect frugality and hard-to-change cultural values – although these factors surely play a role. They are also partly attributable to the weak social protection system. In this respect, the strengthening of social safety nets under way in China and other emerging countries will likely reduce their astronomical household's saving rates and increase their consumption. The process may take a considerable time, but it should eventually allow a substantial increase in domestic demand [6; 18].

Although global imbalances have diminished to some extent during the ongoing financial crisis, the phenomenon of high and persistent current account imbalances will stay with us since the structural reasons behind them have mostly not been resolved. In East-Asian countries like China financial markets will remain underdeveloped and precautionary saving will continue to play an important role in the medium term and may reinforce the 'saving glut'.

Oil exporting countries are likely to be net savers in the foreseeable future as well. Conversely, in countries that have run large current account deficits so far, structural reasons such as relatively favorable demographic trends or a particularly flexible and dynamic economy may remain relevant. In addition, unsustainably high levels of domestic absorption in some countries may be supported to some extend by governments running large fiscal deficits for an extended period of time [8].

In general, government policy should probably not try to focus on the external balance of a country or on global imbalances in general as net exports and associated changes in net foreign assets can be seen as the natural outcome of individual agents' economic decisions governments should only carefully interfere with. However, high and persistent current account imbalances may indicate structural problems in an economy which should be approached in the interest of the economy. For example, in the case of China the extremely high level of the household savings ratio which is behind the high current account surplus suggests that there may be policy options available which increase the welfare in the Chinese economy and at the same time work in the direction of more balanced external accounts. In particular, an improvement of social security systems could decrease the need for private savings and provide a rather quick alignment of current accounts. However generally, emerging market economies need investments to build up a suitable capital stock.

Thus, a more important step is the improvement of financial institutions in emerging markets. The inability of financial systems in emerging markets to provide suitable assets and thereby to intermediate savings and investments on a national level increased the demand for assets denominated in Dollars contributing to the phenomenon that we became used to call "savings glut". Building a more developed and integrated financial system in emerging economies could change the situation.

Probably even more importantly, the regulation of financial markets on a global scale and in particular in countries with highly developed financial markets is necessary to reduce the probability of re-occurrence of asset price bubbles. Apparently financial institutions took on too much risk. Some of the underlying faults that led to financial crises also supported global imbalances to rise. Therefore an institutional framework that stabilizes financial markets at a global level could be one cornerstone in preventing unsustainable global imbalances as well as global financial crises in the future. Reasonable steps towards a better regulation of financial markets are a ban of off-balance-sheet liabilities, implementation of a new structure in the field of rating agencies in order to prevent moral hazard, or introduction of a compensation scheme for bank managers orientated at sustainable developments, among others.

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INTERNATIONAL LABOR MIGRATION IN A PERIOD OF GLOBAL ECONOMIC CRISIS

Abstract. In the article, the author considers the impact of financial and economic crises on labor markets and international migration in past decades and current period. This article investigates the factors that affect international migration the most, based on migration theory and expert studies. It is emphasized that transformation of patterns and processes of international migration is taking place, and

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migration policy responses are analyzed in the changing conditions. As far as the governments of immigrant-receiving countries tend to protect national labor markets, they implement different restrictions for newcomers and illegal workers. In that situation labor migration is affected the most by the crisis, which requires balanced migration policy.

Аннотация. В статье автор рассматривает влияние финансово-экономических кризисов на рынки труда и международную миграцию в прошедшие и текущий периоды. Статья исследует факторы, влиянию которых больше всего подвержена международная миграция, базируясь на теории миграции и публикациях экспертов. Подчеркивается, что происходит трансформация характера и процессов международной миграции, в таких изменяющихся условиях проанализированы ответные меры миграционной политики. Поскольку правительства принимающих стран стремятся защищать национальные рынки труда, они применяют различные ограничения для прибывающих и находящихся нелегально работников. В такой ситуации более всего подвержена кризису трудовая миграция, что требует взвешенной миграционной политики.

Key words: global financial and economic crisis, international labor migration, labor market, unemployment.

Introduction. The current global financial and economic crisis has brought economic recession and increase of unemployment in the first instance in construction, financial field, tourism and other services. International labor market, being an important part of the world economy, is affected by the crisis as well as other parts. In 2009 there were about 212 million unemployed people in the world, increased by 4.4% in Western Asia and more than by 10% in Central, Eastern and South Europe (non-EU), CIS, and North Africa. In 2009 rate of unemployment was 8.4 % in developed countries and EU [1]. Unemployment increased higher among foreign citizens than nationals. At the end of 2009 28.3% of foreigners were unemployed in Spain, and more than 15% in Belgium, Ireland, Finland, France [2].

Analysis of the latest research and publications. Different problems of the world migration processes are considered in the papers of foreign authors K.F. Zimmermann, K. Koser, G. Beets, F. Willekens, P. Krugman, G. Friman, M. Todaro, K. Makkonnell, O. Toffler. Some issues of international labor migration are investigated by the CIS authors: A. Kireyev, I. Tsapenko, G. Zayonchkovska, O. Reznikova, S. Ryazantsev, G. Ovchinnikova, K. Scherbakova. Among Ukrainian researchers, we can name V. Priymak, A. Filipenko, O. Poznyak, M. Romanyuk, A. Rumyantsev, V. Savchuk, O. Vlasyuk and others.

The author of this article bases the research on selected studies of the mentioned experts and also on the reports of the World Bank, the United Nations, the International Organization for Migration, and the International Labor Organization.

Unsolved part of the general problem. Although there have been said and done a lot to overcome the current global financial and economic crisis, on international and national levels, still many gaps need to be fulfilled and problems must be solved. One of them is regulation of international labor migration. In the conditions of the global crisis the issues of international migration become more crucial. As globalization of the world economy develops and the borders of national economies open up, national labor markets become more dependant on foreign labor.

During the last decades national labor markets of developed countries haven't been able to satisfy the demand for labor force, and so they have had to import high-skilled workers for IT, engineering, biotechnology and other high-tech sectors, and low-skilled workers for construction, tourism, house keeping, etc. On the one hand, international labor migration helps emerging economies that have high fertility rate and high increase in labor force to balance their labor markets, and to fulfill the gaps of workforce for developed countries; on the other hand, it takes away the best skilled workers from emerging economies and provokes xenophobia among resident population in receiving countries

International labor migration trends undergo changes during the crisis as well must be analyzed carefully. As far as international labor market is represented by migrant workers, and nowadays the receiving countries need immigrants' work and the sending ones depend on inflows of remittances.

The aim of the paper is to investigate the features of international labor migration during the global financial and economic crisis and develop policy recommendations.

Statement of the main material. The impact of the current crisis, as well as the previous major crises of the twentieth century, was significant on migration patterns and processes, having influenced migrant workers and sending and receiving economies and societies. In the history of the past century we can find five crises, which affected international migration the most: the Great Depression, the Oil Crisis, the Asian financial crisis, the financial crisis in Russia, and the Latin American financial crisis [3, p.6].

The Great Depression of 1930-s resulted in massive unemployment, that reached over 25% in the USA, Canada, Australia, Germany [3, p.7] and in decline of international labor migration. At the same time, the researchers point out the fact of de-globalization, that was provoked not only by the crisis of 1930-s but also by the First World War and high inflation in the 1920s [2, p.6]; [4, p.1]. In any case, those events and political instability brought more restrictive migration policies in receiving countries. In Canada, for example, the number of immigrants was reduced more than ten times from 1928 to 1933. Hundreds of thousands migrants were repatriated from USA and France [3, p.11]

The Oil Crisis of 1973-74 was connected with rise in oil prices and recession in oil-importing countries. That crisis affected international migration but in distinct way. Before the crisis the governments of the Western European countries conducted the policy of attracting foreign workers ("guest worker migration"), by simplifying the visa regimes and allowing family reunion. In the crisis those receiving countries made an attempt to reduce number of attracting foreign workers and to facilitate return migration, which happened to be a difficult task because of ongoing process of family reunification [2, p.6]. Higher fertility of migrants and in-flows of refuges and asylum seekers redounded to an increase in quantity of migrants in Western Europe. In 1970-s net migration was, on average, 240 thousand people to this region annually [5, p.5]. In order to protect national labor markets, the governments of some Western European countries provided extra restrictions on foreign labor force and marginal status for them (e.g., Germany). However, such measures didn't meet the needs of labor markets [6]. The recession after the crisis stimulated

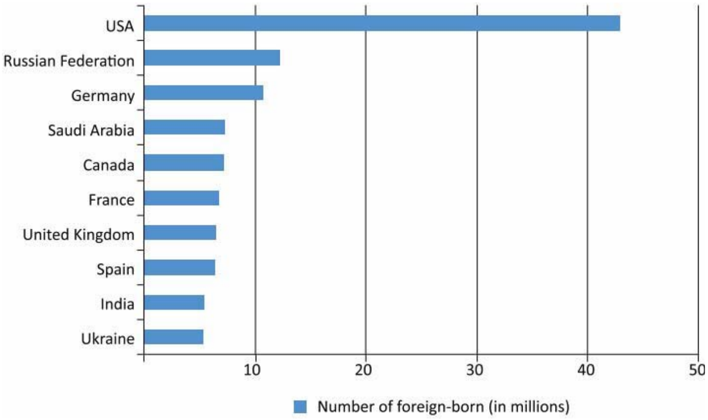

Fig. 1. Countries with the largest foreign-born populations in 2010, millions
Source: [10, p. 115]

relocation of production from developed countries to developing countries in Asia and Latin America, as far as corporates were seeking for cheaper ways of production.

The Asian financial crisis of 1997-99 was followed by reduction in oil prices, slumping currencies, and rapid inflation, which affected standards of living in Asian economies including Indonesia, the Republic of Korea, Hong Kong, Thailand, Malaysia, Philippines (although Hong Kong didn't experience currency devaluations during that crisis) [7, p.1-2]. At the same time, the crisis was relatively short-lived, having enabled the economies of the region resumed quickly. As for labor market, it had wage decline and significant increase in unemployment, policy restrictions toward migrant workers were applied by several governments [2, p.6]; [3, p.8]. Vodopivec M. and Paciretum P. [8, p.4] point out that the crisis brought significant return migration and emigration in the region, while Koser K. [3, p.12-13] didn't find significant impact of the crisis on migration (in 1997 – 2000 the stocks of foreign workers in Asian economies kept growing).

The Russian financial crisis of 1998 was triggered by the Asian crisis, particularly the reduction in oil revenue, also by speculative attack on the ruble [9, p. 11, 16]. Russian economy faced high inflation (84% in 1998), the devaluation of the ruble and considerable increase of prices. The crisis was followed by emigration and "brain drain" from the country, (18% increase by the end of 1998). It increased irregular migration as well, although it's not a feature for all crises [3, p.8-13]. The researchers state that the crisis pushed the government to provide reforms in migration policy.

The Latin American financial crisis of 1998 – 2002. The crisis, as well as the Russian financial crisis of 1998, was followed by "brain drain" from the region. Therefore, the governments of several countries (e.g., Argentina) implemented measures to reduce that tendency. Also it brought a decrease in remittances to Latin America but they rebounded relatively quickly [3, p.29-31].

During the current financial and economic crisis we observe changes in patterns and processes of international migration and slight reduction in quantity of international migrants in certain regions and sectors, although the general number of migrants keeps increasing year after year. In 2010 there were 214 million international migrants in the world. Among the largest migrant stocks The United States of America takes the first place and Ukraine – the tenth (fig. 1).

In the European Union the in-flows of migrants to the countries of positive net migration decreased in most of the countries in 2008 – 2009. Insignificant reduction was from about 1 to 10 per cent in Denmark (-9,7%), Finland (-8.3%), Malta (-9.8%), United Kingdom (-4.0%). The reduction of migrants from about 10 to 20 per cent was in Cyprus (-17.2%), Italy (-17.2%), Netherlands (-10.2%); and the most it was in Austria (-33.4%), Germany (-50.4%), Luxembourg (-11.3%), and Spain (-31.3%). In several migrant-receiving countries the quantity of immigrants kept growing – in Belgium (1.4%), Portugal (8.7%), and Sweden

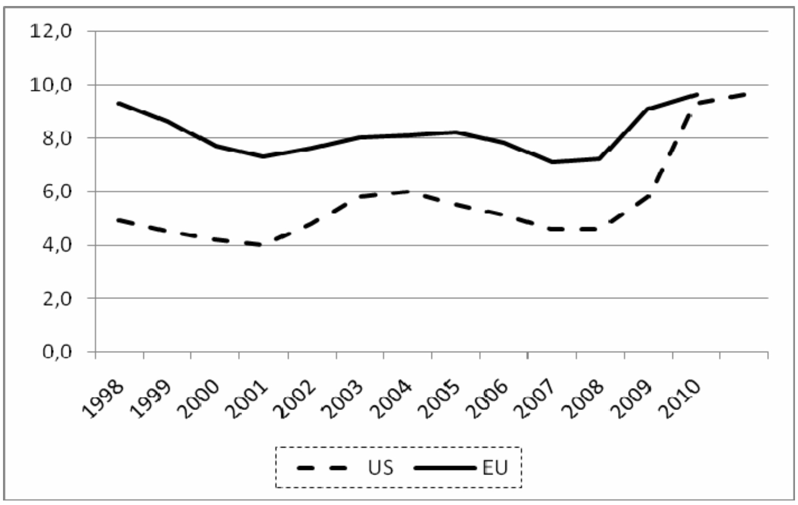

Figure 2. US and EU unemployment rates, 1998 – 2010, %
Source: [11]

(1.1%) (calculated based on [11]).

In the research of International Organization for Migration [3, p.28], Koser K. states that the impacts of previous and the current crises on international migration are significant but they are not necessarily equal because of different national and regional circumstances, conditions of the labor markets, and dependency on migrant workers. The political situation, attitude towards migrants in society, and potential for growth of irregular migration are also important. The author

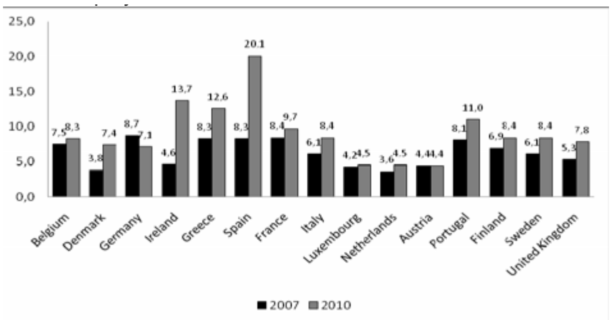

Figure 3. Unemployment rate of EU-15 Member States in 2007 and 2010, %
Source: [11]

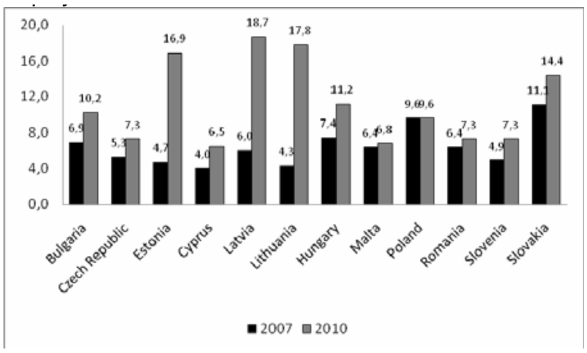

Figure 4. Unemployment rate of EU-10 and EU-2 Member States in 2007 and 2010, %
Source: [11]

doesn't put unemployment among migrant workers on the first place in the reasons of the changes in migration flows. Castles S. suggests, based on his analysis with other researchers, that impacts on international migration are different depending on whether the crisis is short- or long-lived.

Beets G. and Willekens F. [2, p.2-4] suggest (with the reference to the migration theory) the intention to migrate is lower during the recession because there are less opportunities of finding a job; at the same time lower wages in destination countries are not the case in changing the migrant flows. The authors consider migrant workers to be one of the most vulnerable categories of workers in a period of the global crisis. In the beginning of the crisis it was assumed that many migrants would return to their home, but it didn't happen on a high-scale.

Martin P. [12] assumes that migrants stocks would stop growing or even decline in receiving countries, because there is less demand for labor force. There is also should be decrease in migrants' flows if settled migrants would advise the newcomers not to enter the country as far the situation in labor market.

According to "push – pull factors" theory, when there are less job opportunities in one country, people tend to leave and search elsewhere. They will likely go to the states with higher employment and wage rates, but the point is that typically the economic recession brings an increase in unemployment and worse working conditions in both origin and destination countries. In that case push and pull factors "cancel each other out" [2, p.4]. In the US the unemployment rate went up from 4.8 per cent in Q4 2007 to 10.0 per cent in Q4 2009. This level is only comparable with the end of the Great Depression [13, p.22]. For more than ten years unemployment in US was significantly lower than in EU, it almost matched European level during current recession (fig. 2)

In the European Union unemployment rate was 9.6 per cent in 2010 compared with 7.2 per in 2007. Having being affected by the crisis, this rate increased in all EU Member States except Germany. Unemployment rate raised most of all in Lithuania (13.5%) among migrant-sending Member States and the most in Spain (11.8 %) among migrant-receiving Member States (fig. 3, fig. 4). As the governments are trying to cut expenditures, immigration integration funds are one of the vulnerable. Economists project a long-term recession in labor markets and suggest extra job creation is essential for future growth [13, p.2-3].

According to the buffer theory, migrants considered as a buffer for the economy of an immigrant-receiving country. Foreign workers are likely to enter the country when it experiences economic growth and return home when economic downturn comes up. [2, p.3]. The evidence from the current and past crises suggests that only small part of workers would leave the host country.

The migration theory explains why sometimes people prefer to stay rather than get back: if there are fewer opportunities of finding a job in home countries, if migrants assume they might not be able to return, and if they invested a lot in movement, they choose not to change the destination location. Nevertheless, if foreigners have social security and networks in host countries they are likely to stay [2, p.2-3].

In order to control and optimize the quantity of migrants, who intend to settle in host countries, the governments use immigration policy, which goal is to prevent intervention of large inflows of people of active working age to the national labor market, and at the same time to encourage labor force of the qualification and education level demanded in the market. In the period of rapid economic growth, the governments provide open policy, and vice versa provide higher quotas or other measures, when the national labor market needs protection from extra workers. Such measures are [14, p.5]:

- To require a job offer from a potential immigrant. Especially it is about the categories of workers that are not in high demand in the labor market;
- To reduce quotas of quantity of migrants;
- Countries with points systems (Australia, Canada, Great Britain, etc.) can raise the number of points required to enter the country;
- To promote return migration;
- To make the process of prolongation of staying period and process of getting visa for the family members more difficult artificially;
- To implement more deportations for illegal foreign workers.

In any case, during all crises the governments tend to provide more restrictive regime of international migration and it is hard to say whether migrant flows are lower due to the worse economic situation or measures implemented by the governments. Foreign workers employed in the sectors where the economic recession is felt the most (construction and a part of service sector) and workers with temporary contracts are affected by the crisis more than other categories of migrants [14, p.17]; [2, p.2-3]. The majority of EU member state, (Czech Republic, Great Britain, Ireland, Spain, etc.) provided additional measures of migration policy in order to protect national labor markets from foreign workers of non-EU members, offering financial help for those who decides to return to their native countries. In the UK the protest started demanding to employ British workers not foreigners, as employment among Britons dropped by 1.8 per cent from September 2007 to September 2008, while employment of foreign workers rose by 4.9 per cent. The government reacted on the strikes against migrant workers immediately [15].

Such measures are feasible; however international organizations (ILO, OECD) and researchers point out that closing doors for migrants may affect negatively the economies of receiving countries [16]. All EU countries (both sending and receiving) more or less are dependant on migration. In instance, in 2010 natural population growth in EU-27 was 0.5 million people, while net migration was 0.9, including Euro zone 0.3 and 0.6 million respectively [17]. According to research [18]; [19], demographic problems of Europe, such as life expectancy increase, population aging, and taxation pressure might be decreased due to migrants in-flows. Nowadays Europe has become dependant on migrant workers in IT, engineering, tourism, health care, agricultural sector, and it's not temporary.

According to projections [13, p.15], the current crises is going to reshape patterns and processes of international migration. Foreign born populations have already slowed down in their growth in more developed countries, although they steel hold the majority of international migrants. There seems to be a turning point for the immigrant-receiving countries – some of them, such as Ireland and Greece are experiencing increase in emigration. In 2009 net migration in Ireland was -7,878 people, although it had remained positive for than fourteen years [20].

Although we observe reduction in migrant movements all over the world due to the crisis, migration in-flows into the receiving countries are still high. Despite the recession, the globalization process goes on and will definitely lead to increase of international migrants in future. According to International Organization for Migration [10], by 2050 their quantity in the world may reach 405 million people consequent on growing demographic differences, climate change, new political and economic dynamics, technological revolutions and social communications. New centers of attraction migrants may arise. In any case, the governments of sending and receiving countries must be ready to new trends and dynamics in international labor migration, taking into consideration short-term as well as long-term perspective.

Massey [21, p. 23-26] warns (based on synthetic theory) that migration process which is happening all over the world is not a simple seek for economic benefits. It is rather a "natural consequence" of integration in social, political, and economic life across borders. Besides, many migrants tend to migrate temporary in order to solve their problems in origin country, but not to have a permanent relocation. Their motivation towards relocation may change over time and they might either return or search elsewhere. The author suggests the government officials and societies shouldn't base their conclusions on false assumptions; policy responses are not to be only within neoclassical economics – either open or closed borders.

In these conditions, on one hand, the latest emigration trends in the world require more attention and control from the government to this issue, on the other hand, reasonable and agreed migration policy is required in destination countries. Migration policy should take into account interests of sending countries, meet the needs of national labor markets, provide harmonization and coordination of the legislation towards foreign workers, and determine quotas for migrants. The authorities of sending and receiving countries should have a shared vision of migration flows regulation and coordinated actions.

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