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GLOBAL CRISIS AND NATIONAL ECONOMIES: MORE HASTE, LESS SPEED?

Annotation

The article is devoted to the estimation of the current situation in the national economies which suffer from the global financial crisis as well as to causes of such their problems. Developing as well as transition economies, especially those which opened their financial markets sharply, suffer from global financial countries much more then others. Global financial crisis entails both great problems and unique opportunities. In the second part of article it was analyzed what should be done after crisis as well as perspectives of international financial system reforming. Both the possible future configuration of the global financial system and consequences of this transformation were determined.

Key words: global financial crisis, globalization, global financial system

Анотація

Стаття присвячена оцінці поточної ситуації в країнах, що постраждали від глобальної фінансової кризи найбільше, а також аналізу причин такого стану. Країни, що розвиваються, та країни з перехідною економікою, особливо ті, що швидко відкрили свої фінансові ринки, більше інших постраждали від поточної кризи. Глобальна фінансова криза з одного боку тягне за собою великі проблеми, а з іншого – відкриває унікальні можливості. Також у статті розглядаються можливі посткризові заходи та перспективи реформування міжнародної фінансової системи. Визначені ймовірна конфігурація глобальної фінансової системи та наслідки такої трансформації.

Ключові слова: глобальна фінансова криза, глобалізація, глобальна фінансова система

Аннотация

Статья посвящена оценке текущей ситуации в странах, которые пострадали от глобального финансового кризиса в наибольшей степени, а также анализу причин этого. Развивающиеся страны и страны с переходной экономикой, особенно те, которые быстро открыли свои финансовые рынки, больше других пострадали от текущего кризиса. Глобальный финансовый кризис с одной стороны влечет за собой большие проблемы, а с другой – открывает уникальные возможности. Также в статье рассматриваются возможные посткризисные мероприятия и перспективы реформирования международной финансовой системы. Определены вероятная конфигурация глобальной финансовой системы и последствия данной трансформации.

Ключевые слова: глобальный финансовый кризис, глобализация, глобальная финансовая система

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Now world economy is emerging from one of the worst financial crisis in the last 100 years – global financial crisis. Experts analyze the causes of such a crisis, its current disadvantages and advantages, estimate the losses, advice how to recover from it, make prognoses how long we'll suffer from it. But the most actual and important questions for now are "What's further?" and "What should be done on national and international levels in order not to have such crisis in the future?" The answers to these questions will show if we are going to suffer from permanent financial crisis from time to time or we are going to have strategic sustainable development of the world and countries economies.

Many economists, financiers, politicians devoted their theoretical and practical investigations to current global financial crisis. The most significant and resonance research works on the mentioned topic were done by Paul Krugman [1], Ben S. Bernanke [2], Joseph Stiglitz [3], Alan Greenspan [4], Roger C. Altman [5], George Soros [6], Catherine Rampell [7] and others.

Aim of the research – to estimate which national economies suffer from the global financial crisis more then others and why, to analyze what should be done after crisis as well as perspectives of international financial system reforming, to determine both the possible future configuration of the global financial system and consequences of this transformation for countries of the world, particularly for Ukraine.

Research methods: analysis and synthesis, systemic generalization, factor analysis, hypothesis.

Weak Spots on the World Economy Map

Answering the question "What should be done in order not to have such crisis in the future?", first of all, the weak spots should be analyzed. What countries and why have the worst global crisis after-effects?

Nowadays many international organizations, famous analytical agencies and influential magazines vie with each other in countries ranging according their damage from global crisis.

So, American magazine "Forbes" created rating based on «poverty index» [8], which includes such showings as Gross Domestic Product (GDP), inflation and purchasing capacity. Top ten countries suffering damage include Latvia, Estonia, Ireland, Iceland, Lithuania, Venezuela, Ukraine. According to International Monetary Fund (IMF) data Gross Domestic Product (GDP) of these countries decreased sharply, inflation speeded up, external debts as well as unemployment increased (table 1).

There are some other competent ratings (table 2). First of all, it's worth to pay attention to research of German experts who compared maximal quarterly GDP increase before recession with maximal quarterly GDP decrease during recession in 30 countries [9]. According to this index the worst situation was in Turkey (-14,2%), Russiaї (-11%), Singapore (-9,9%), Mexico (-8,8%) and Japan (-8,3%). German occupies the 8th position in this rating (-6,9%), Italy – the 10th (-6,5%), the USA – the 20th (-3,9%). Only two countries among 30 which were analyzed demonstrated increase of this index – Poland (+2,2%) and India (+7,6%).

World Bank representatives name Ukraine as the country which suffer from crisis much. It happened because of raw materials and import goods prices volatility as well as because of foreign capitals dependence [10].

It's also worth to pay attention to EU problems in global financial crisis conditions. Nowadays EU economy is recovering from crisis little by little, but the speed of this process differs from country to country. European economists became anxious about financial situation in so called PIGS-countries (Portugal, Italy, Greece, Spain) as well as in Baltic countries. At the end of 2009 situation became so difficult that even prognoses of Greece and Ireland exit from euro zone appeared [11].

Table 1 Forbes rating of countries which suffer from the crisis more then others

Country	Population	GDP rise, %	Infla-tion, %	Purchasing capacity, %	Notes
Latvia	2263000	-17,8	5	-13,8	Demand decrease, credit dependence
Seychelles	83000	-7,2	31,4	-6	Problem of external debt, devaluation, inflation, tourism decrease
Estonia	1343000	-14,2	3,3	-11,3	The same problems as for Latvia
Iceland	319000	-10,5	8,5	-10	Financial bubble, credit dependence
Ireland	4435000	-12,8	1,17	-11,9	Real estate bubble, banking system crisis, economic decrease
Venezuela	28611000	2	36,8	-0,4	Oil money caused serious inflation
Singapore	4750000	-9,6	2,5	-10,6	Position of world financial and trade center
Lithuania	3338000	-10,7	5,6	-5,2	The same problems as for Latvia
Ukraine	45505000	-5,1	17,3	0,5	The highest inflation in Europe
Jamaica	2711000	-4	13,5	-2	The biggest external debt

Currently crisis influenced almost all spheres of Greece economy, government debt is more then 300 billions of Euros (113% of GDP), budget deficit is 12,7% (four times more then critical threshold according to Maastricht criteria – 3% of GDP) [12]. By the way, almost all EU countries broke Maastricht criteria in global financial crisis conditions (for example, in 2009 budget deficit in Ireland was 12,5% of GDP, in Spain – 11,5%, in France – 8,3%, in Portugal – 8%). Now Greece is called as «EU powder keg», «sick man of Europe» and «euro's drowned stone». What are the causes of such a situation?

Table 2 Ratings of countries which suffered from global financial crisis

Issue	The most suffering countries	Notes
Paul Krugman [15], famous economist, Nobel Prize Laureate	Iceland, Ireland, Austria	Austria actively credited East European countries that may cause its financial instability
Tomas Mirov [16], European Bank of Reconstruction and Developments Head	Russia, Romania, Turkey, Ukraine	GDP decrease, problem credits increase, corporative defaults risks, currency rates volatility, regional dependence
International Monetary Fund [17]	Russia, Ukraine, and 10 more countries of the former Soviet Union	Corporative defaults risks increase
Les Echos [18], periodical edition	Ukraine, Russia, Iceland, Baltic countries	
Uri Dadush, Carnegie Fund International Economic Program Director [19]	East European countries, Russia, Ukraine	
Forbes [8], periodical edition	Latvia, Seychelles, Iceland, Lithuania, Estonia, Singapore, Ireland, Venezuela, Ukraine, Jamaica	Rating is based on poverty index and includes GDP level, inflation and purchasing power
World Bank [9]	Ukraine, Baltic countries, other new members of EU	Demand crisis caused 40% sales decrease in Latvia and Lithuania which are the poorest in the EU
DekaBank[20], German bank	Turkey, Russia, Singapore, Mexico, Japan	30 countries rating based on comparison of maximal GDP quarterly increase before recession and maximal GDP quarterly decrease during recession

Inflated governmental sector, depressed Greece economy, weak budget discipline, irresponsible fiscal and social policy are among main causes. Besides political factors (corruption, constant political competition, political elite change, permanent trade unions strikes and demonstrations), Greek mentality, absence of tough Maastricht criteria control, constant EU budget subsidiaries for Greece aggravated the situation. Regardless European Central Bank position that European countries are not responsible for other EU members' debts, Ministers of Finance of euro zone countries approved EU and IMF financial aid to Greece of 110 billions of Euros. Greek government committed itself to introduce strict economy regime, to freeze government sector salaries for three years, to increase value-added-tax, to increase pension age. But such a decision caused mass strikes in Greece. In its turn disintegration public mood increased in Europe. For example, most of Germans support the idea of Greece expulsion from euro zone [13].

Iceland also faced the worst effects of global crisis, its national currency devaluated tree times. The main cause is money outflow [14]. Before crisis prosperity of Iceland as European offshore banking center with preferential taxation based on constant foreign capitals inflow.

Ukraine appears almost in all ratings. Financial system of Ukraine has definite experience of functioning in crisis conditions (1998, 2004, 2008). Ukrainian banking system went through crisis of 1998 as well as of 2004 without serious problems, but the current crisis brought much more problems. Besides it appeared to be not enough experience to deal with the global financial crisis. A lot of experts consider financial globalization and external events as the main factors caused Ukrainian current problems. Our analysis showed that the main reasons are the following.

Currency credits (Ineffective banking regulation and management). Ukrainian banks actively borrowed US dollars abroad (short-term credits with low interest rates) on the refinancing basis and lent them to Ukrainian consumers (who mostly didn't have currency incomes! and sometimes even couldn't prove their solvency) as middle- and long-term credits to purchase cars and overestimated real estate. This scheme worked until 2008 when there was a shortage of foreign capital inflows.

People mentality. People remember financial problems they faced in 90th years of the previous century. As soon as people fill the dangerous of financial crisis, national currency devaluation, banking instability they start to panic and take off all their money from banking system and change them for US dollars and Euros.

Political instability. The conflict of the President, the Prime-Minister and the Supreme Council (Parliament) of Ukraine aggravated the difficult economic situation instead of anti crisis and recovery policy development and implementing.

Swift liberalization of developing financial system of Ukraine (inconsecutive government financial policy). Integrative financial globalization index - IFGI (developed and calculated by author) increased sharply in Ukraine last years (2002 – 0,125; 2007 – 0,245). (By the way, Iceland had the sharpest increase of IFGI during the same period: 2003 – 0,262, 2007-0,755. China has one of the lowest IFGI: 2003-0,05, 2007 – 0,08. More haste, less speed?). The financial system of Ukraine was not ready enough to function in global conditions. In order to soften shocks of financial liberalization it needs time and step-by-step, supported by government concept/program of adoption of country financial system to global conditions of functioning.

So, we can see that there were mainly internal (exceptionally Ukrainian) factors which caused financial crisis in Ukraine. Of course, we can't disregard global imperatives but foreign experience shows that the more developed and stabile financial system the less negative aftereffects of the crisis influence its functioning.

As a result, we can see that developing as well as transition economies, especially those who opened their financial markets sharply and integrated into the world financial system rapidly, suffer from global financial countries much more then others.

What's further?

It's becoming rather obvious that existing global financial system should be reformed. Taking into account that every crisis has dual nature, from the one hand it brings a lot of problems for national economies, but from the other hand – it uncovers existing disadvantages, clears the way to reforms, opens a lot of unique opportunities for positive changes.

Nowadays experts try to estimate what the global economy will look like after the crisis. There are some principal ideas of global financial system reforming. Let's divide them into two groups: proposals of international organizations (IMF proposals; World Economic Forum (WEF) scenarios; UNCTAD plan) and proposals of countries / groups of countries (currency monopolization, currency multi-polarity, currency regionalization etc.).

IMF experts [21] determine four key areas where reforms are needed in order to change current global financial architecture after crisis. Firstly, the surveillance of systemic risk needs to be reoriented to insure warnings are clear, to successfully connect the dots, to provide practical advice to policy makers. Secondly, an effective forum for policy makers with the ability and mandate to take leadership in responding to systemic concerns about the international economy is a key. Thirdly, ground rules for cross-border finance need to be strengthened and made more automatic to avoid a repetition of the "go-it-alone" responses seen in this crisis. Fourthly, given the growing size of international transactions, resources available for liquidity support and easing external adjustment should be augmented and processes for using them better defined so they are more readily available when needed. There are also some IMF experts advices as for a number of priorities for post-crisis policy [22]:

- to exit from the national anti-crisis policies in a way that is credible, orderly, and cooperative;
- to lay a foundation for a resilient global architecture, starting with a review of the IMF mandate in surveillance and lending, and looking into ways of improving the stability of the international monetary system;
- to continue to strengthen our macro-financial and cross-country work, and to deliver new ways of analyzing risks and vulnerabilities, including through our early warning exercise and our analysis of common policy challenges countries are faced with;
- to determine how best to assist the G-20 with their mutual assessment process;
- to examine ways to make policy frameworks more resilient to crises;
- to deliver, by January 2011, on the call from IMF governors for a shift in country representation at the IMF of at least 5 percent toward dynamic emerging market and developing countries.

World Economic Forum issued the report «The Future of the Global Financial System» [23], which presents four possible scenarios of events moving in 2008 – 2020: financial regionalism (a world in which post-crisis blame-shifting and the threat of further economic contagion create three major blocs on trade and financial policy, forcing global companies to construct tripartite strategies to operate globally), re-engineered Western-centrism (a highly coordinated and financially homogenous world that has yet to face up to the realities of shifting power and the dangers of regulating for the last crisis rather than the next), fragmented protectionism (a world characterized by division, conflict, currency controls and a race-to-the bottom dynamic that only serves to deepen the long-term effects of the financial crisis), rebalanced multilateralism (a world in which initial barriers to coordination and disagreement over effective risk management approaches are overcome in the context of rapidly shifting geo-economic power).

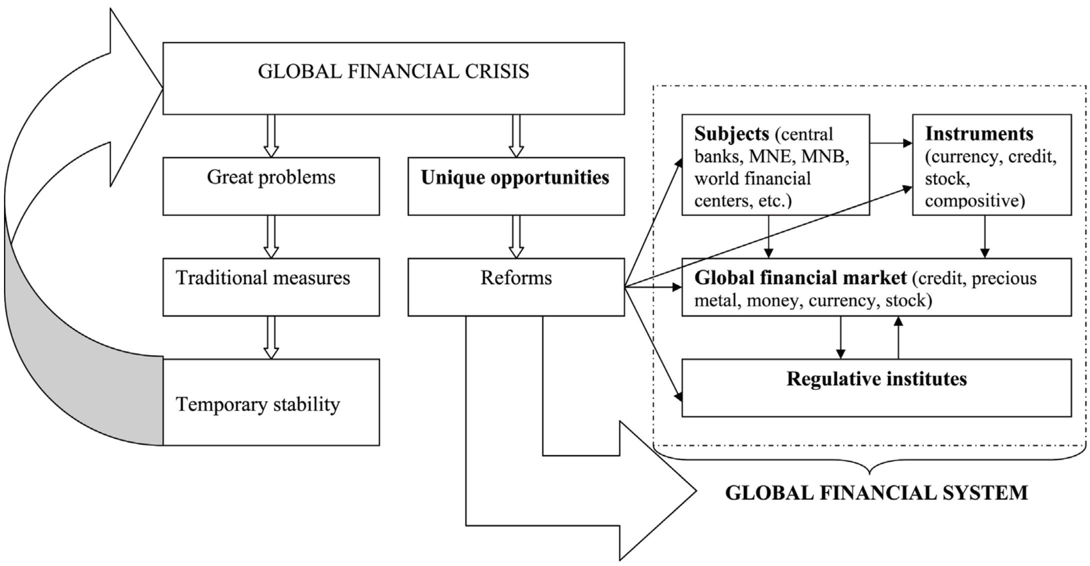
Financial regionalism and rebalanced multilateralism are the most efficient scenarios for emerging markets including Ukraine.

UNCTAD plan supports the idea of US dollar role decrease and proposes new model of regulated flexible currency rates. It's supposed that central banks will have to do currency interventions according to the situation in the world economy and world financial system will function according to international agreement of currency rates regulation. UNCTAD plan also takes into account UN Stiglitz Commission proposals of "replace accounts" in SDR where Central Banks can deposit US dollars reserves and proposal of new artificial reserve currency issued by "global reserve bank".

There are some principal ideas of currency system functioning: currency monopolization (US dollar monopolization), currency multi-polarity (USD, EUR, JPY, GBP competition), currency regionalization, the common world currency (for example, SDR), gold-oriented system (increase of gold role in international finance).

Currency regionalization develops in some directions according to geographical regions and regional currencies (European Currency Union (regional currency - Euro), "10+3" (ASEAN + China + Japan + Korea), Yen or Yuan block, Asian and Pacific Ocean Region (ACU), 6 countries of Persian Gulf (Gulf dinar), Bolivarian initiative (ACB Sucre), ideas of currency unions in South Africa and Russia).

We can conclude that proposals of international organizations mainly concern the financial regulative institutes and mechanisms, and ideas of national governments mainly focus on creation of new currency as a main global financial instrument. So, the main problem which world faces in the process of international financial system reforming is absence of complex, systemic reforms which should lead to development of global financial system with its global financial institutes, global financial instruments and global financial markets. Instead of it we still have practical and scientific discussions if global financial system exists, and what are the differences between global and international financial systems. In such conditions it's obvious that the moment should not be missed and national governments as well as international organizations should bend every effort to use this chance to develop improved and stabile global financial system.



Scheme 1. Global financial crisis effects and global financial system forming

Conclusions

So, it's obvious that modern international financial system based on US dollars has a lot of disadvantages; it doesn't meet the constantly growing requirements of all groups of countries and leads to excessive dollarization, speculative pressure on national currencies rates, capital outflow. The current global financial crisis showed that traditional anti-crisis measures don't work efficiently any more and crisis assumes permanent character.

Global financial crisis has dual nature of after-effects: from the one side – great problems, but from the other side – unique opportunities which should be realized. If national governments as well as international organizations will bend every effort to reforming the existing international financial system and as a result forming global financial system, the world will manage to resolve many of global problems, firstly, global financial instability.

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