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## IMBALANCES IN THE FINANCIAL SYSTEM OF UKRAINE AND THEIR TRANSMISSION TO THE SYSTEMATIC RISKS IN THE MONETARY STABILITY

*The article examines the current state and major imbalances in the financial market of Ukraine, which are the source of risk to the national economy and can significantly affect the monetary stability during the post-crisis period and the period of recession. Threats that are associated with peculiarities of the institutional structure of the financial market of Ukraine are analyzed, namely, on the one hand, the importance of banking institutions, and on the other – functional inadequacy of the banking systems in ensuring monetary and financial stability. The analysis shows that the weaknesses of the banking system have led to the accumulation of risks and structural misbalances in the Ukrainian economy which pose a danger to stability in the financial sector. Conclusions and measures are substantiated for the use of tools of monetary policy in order to strengthen monetary and financial stability. Among them are: the necessity of changes in the methodological tools of assessment of the financial stability and accumulation of systemic risk in the economy, measures to manage the inflation risk as the main internal risk for Ukraine, ways of enhancement of interaction between the banking system and the national economy through the interest rate benchmark.*

**Keywords:** financial market, monetary stability, banking system, credit boom, financial institutions, systematic risk.

In recent decades the expansion of financial intermediation and, consequently, increase of the impact of financial institutions on the economy has been taking place. This influence can be either stimulating and guiding nor suppressing and devastating. Therefore theoretical basis as the rationale of the financial system features becomes especially significant which serve to economic interests of the society in the financial sector.

Institutionally financial system is represented by a set of agents that perform a number of wide functions (transformation, money creation and control of money supply, intermediary in payments, etc.) and specific functions (e.g. act as backbone institutions whose activities affect the stability of the financial system and determine the financial safety). In practice, these functions are difficult to clearly delineate. Effective performance of the financial system is provided by the existence of certain qualities and necessary structural organization. At the same time, these characteristics are not internally inherent for the financial institutions, they are provided through the development of the legal framework in which a certain power, authority and mission of different financial institutions is specified. In this form the state creates the conditions for financial institutions for effective financial intermediation and risk management. However, the creation of such conditions should be done on mutually beneficial basis and have predictable consequences. It is expected that financial intermediaries with sufficient potential in the detection and removal of threats to financial stability will act on the financial market in the interests of society and the state. The nature and form of the financial system participation to ensure the financial stability have begun to be perceived by the society in Ukraine just recently. It is important to find the right incentives for financial institutions to maintain financial stability, even if sometimes it is contrary to commercial interests. At the same time, it is necessary to develop the society trust in the ability of financial institutions to influence financial stability in the country, to develop the quality requirements to the financial system in the context of financial stability. These measures will help to establish an efficient system to protect the economy of Ukraine from the domestic and external shocks.

Studies of parameters that determine the ability of the financial system to perform assigned functions were deployed in the study of the phenomenon of financial stability. The most significant contribution to the study of these prob-

lems did Bernanke B., H. Shinazi, J. Stiglitz and F. Mishkin. Research on the impact of financial institutions on the financial stability is carried out on a regular basis by the specialists of domestic institutions that act as regulators in different countries, including the ECB, Bank of England, the Bank of the Netherlands, the Bundesbank, the U.S. Federal Reserve System, the leading international organizations, including the IMF, the Bank for International Settlements, institutions of WB.

The relevance of this problem becomes more complicated in the case of indefinite relations between elements of the financial system, which is typical case for countries with developing economies.

Thus, the **aim** of this article is to identify and summarize the problems and risks in financial markets that form negative trends in the economy of Ukraine, particularly in the monetary area.

### **Features of the economy of Ukraine after the crisis 2008.**

The escalation of the crisis 2008 in Ukraine showed that the financial system can be a conductor of global financial risks into the economy, even if it does not experience the problems that triggered the global financial crisis in developed countries.

Economy of Ukraine can be characterized as a small and open by international standards. Such kind of economy is vulnerable to some of the internal and external factors that have global or national influence and are challenges for the financial system to preserve financial stability.

The openness of the economy is used to be evaluated in two vectors: trade openness and financial openness. The first one shows level of participation of the country in world trade (measured as the ratio of imports and exports to GDP), the second one estimates the degree of the involvement of national financial markets to global financial flows (measured as the ratio of foreign assets and liabilities to GDP). Figures 1 and 2 show the dynamics of financial and trade openness for a group of countries during 2000-2008. As shown in the figure Ukraine had shown strong growth of financial openness since 2005 in comparison to other countries with emerging market. However, trade openness of Ukraine for a long period had remained roughly unchanged. This indicates the increase of the vulnerability of the Ukrainian economy from fluctuations in the financial markets mainly (Ministry of Economic Development and Trade of Ukraine, 2012); (Liubkina O., 2012).

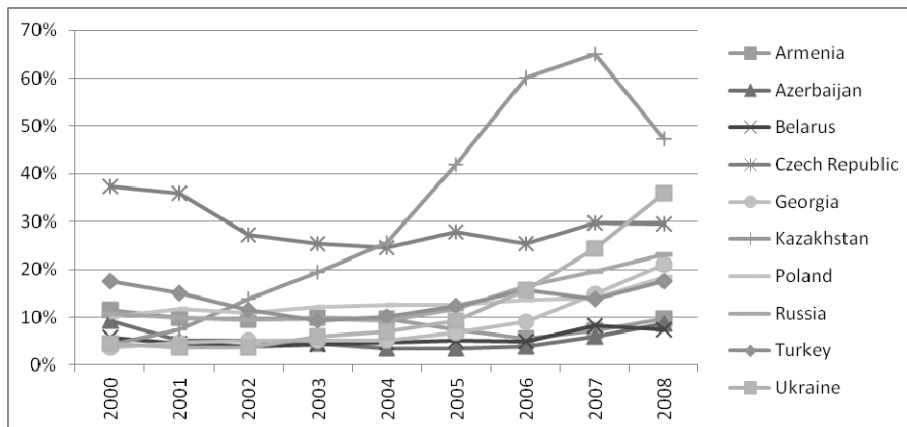


Fig. 1. Financial openness of the selected countries with emerging market (International Monetary Fund, 2012)

\* Source: [4].

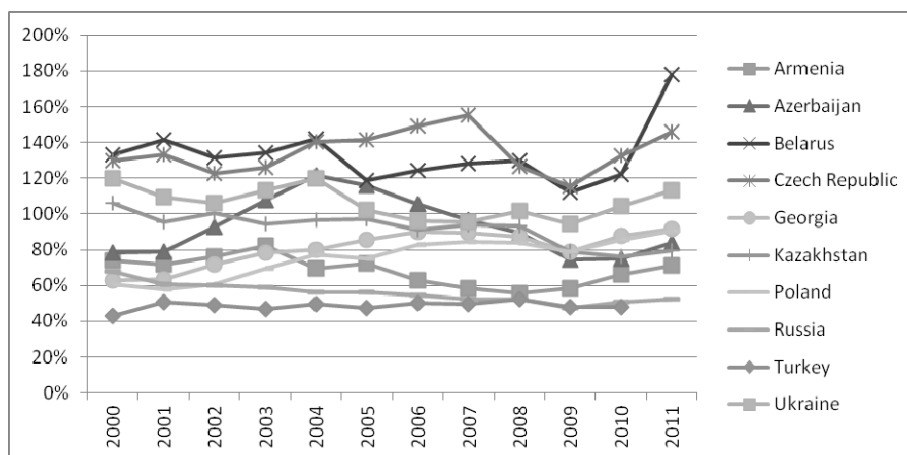


Fig. 2. Trade openness of the selected countries with emerging market (International Monetary Fund, 2012)

\* Source: [4].

The World Bank has developed criteria for the division of national economies into groups according to the level of gross national income per capita: low income (less than US\$ 995), with income below average (US\$ 996 – 3945), with income above the average (US\$ 3,946 – 12,195) and high income (over US\$ 12,196) (World Bank Group, 2012). Following this classification the economy of Ukraine refers to a class of economies with income below average: gross national income per capita as of 2009 was \$ 2800.

These parameters specify the level of economic damage from the global financial crisis. Firstly, the impact was significant due to the changes in world trade. Because of the decline in real GDP, and hence drop in demand in most countries and primarily in developed ones, exports and imports decreased both in separate countries and in the world as a whole (and not only in money terms due to the fall in prices, but also in volume). This affected the volume of foreign trade of Ukraine, there were changes in the structure of bilateral trade, the role of import-export operations with energy suppliers including Russia increased. This was due to dependence of Ukraine on energy imports, as well as the relatively low competitiveness of Ukrainian products on foreign markets. Reduced demand for Ukrainian export, while the rising cost of energy supply contracts were powerful drivers of growth of corporate debt, mainly export-oriented corporations, which by nature of its products are key consumers of energy (National Bank of Ukraine, 2012).

This was a challenge for the banking system to meet the needs of strategically important clients in lending in the general trend of accumulation of corporate debt private sector.

Another powerful channel of influence on the economy of Ukraine was the decline in external financing. Restricting access of banks to external sources of financial capital, reduced volumes of foreign financing because of the global crisis together with the fading of economic activity within the country and the mass withdrawal of savings from the banking system worsened significantly the ability of banks to properly serve their liabilities.

Accordingly some of banks went bankrupt and for most of them the risk of bankruptcy became very probable. At this time, rose the number of requests of commercial banks for urgent refinancing to the National Bank of Ukraine (NBU).

High vulnerability of domestic financial system has also been linked to a lack of experience in the successful implementation of anti-crisis programs in the financial markets, the lack of a single, comprehensive government policy for maintaining financial stability.

Thus, the external risks influenced Ukraine through trade and financial channels that connected the economy with the rest of the world, and all of them directly or indirectly were related to the financial institutions and to the banking sector the most.

**Banking as the determinant part of financial system of Ukraine**

Banking sector is the largest component of the financial system of Ukraine and covers more than 70% of the total assets of the financial market, that is why its contribution to the formation of financial stability is the most important.

Key characteristics of the banking system of Ukraine are in general consistent with the characteristics of the banking systems of other countries with emerging markets.

In particular, the industrial structure of loan portfolio is characterized by a focus on industries with high demand on credits and solvency of companies. The largest concentration of loans is in trade, manufacturing and real estate – 9%, 6% and 4%, respectively. Most loans in foreign currency are obtained by manufacturing, transport and communication and construction industries (55%, 42% and 38% of the volume of loans in the sector respectively). The largest share of income banks receive through interest

margin, which is a typical practice for countries with emerging markets (Batkovskiy V., 2009).

There are also significant regional imbalances of banks' activity (Figure 3). Most banking institutions are concentrated in developed industrial regions – in the metropolitan area is concentrated 63% of the total number of banking institutions, in four industrial regions – almost 24%, ten regions do not have any existing bank (no bank is registered in region, only branches).

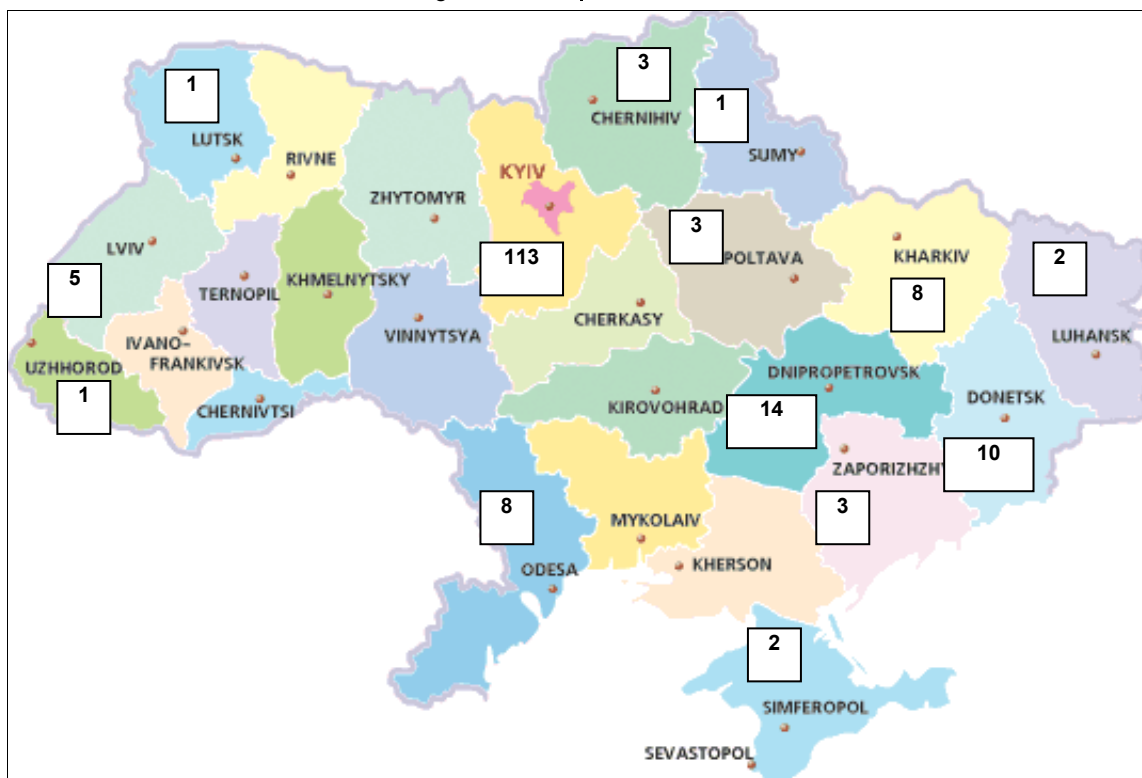


Fig. 3. Concentration of banks by regions of Ukraine, as of March 2012 (National Bank of Ukraine, 2011)

Source: [13].

The reason for such disproportion is the comparatively greater demand from administrative centers and industrialized regions of banking services and a high concentration of businesses. At the same time banks deliberately avoid additional risk in regions with agricultural specialization. This is the main reason why agricultural regions are inferior to industrially developed regions in the use of banking services – high financial risks, particularly from bad harvests, fluctuations in agricultural prices, profits depending on the price of fuel and gas, planting materials, government subsidies, etc. However, given the recent global and regional trends in the economy, the agricultural sector in Ukraine is increasingly highlighted as a promising sector. The competitive advantages of agriculture in Ukraine are: climate and large areas of farmland, vertical integration and weak competition, entrepreneurial approach based on management, low level of debt, accumulated liquidity, high demand in the domestic market and export potential, government support and more. Given the significant growth potential of the agricultural sector, in the nearest time it is likely to expect changes in the sector orientation of the banking system of Ukraine.

#### The credit boom as the driving force to the financial crisis.

The growing interest of banks in profit by expanding lending activity together with a high demand for financing creates additional risks for banks which can turn into a systemic risk. Thus, the dynamic development of the banking sector and expansion of credit activity in transition econo-

mies are often accompanied by a credit boom phenomenon – the rapid growth in lending.

The credit boom was also observed in Ukraine before the 2008 crisis. Since 2000, the real growth rate was on average 45.9p.p. per year, reaching a peak of 60% in November 2003, and decelerating to 55.2% in the end of 2004 (National Bank of Ukraine, 2010). This revival of lending had ambivalent nature considering the consequences for the economy of Ukraine. On the one hand credit boom created the conditions for the expansion of reproductive processes, on the other – was the main source of risks to financial stability.

Research of western economists shows that the periods of abnormal credit growth (from 20% to 60% of GDP and more) come before the banking crisis with 20% probability (IMF, 2005). In Ukraine this trend was confirmed since 4 years before the 2008 crisis, the ratio of loans to GDP in the banking system of Ukraine amounted to almost 24%. A similar value was observed three years before the 1994 crisis in Mexico and four years before the 1997 crisis in the Philippines.

In Ukraine, the formation of the threats from the credit boom was caused by the following factors:

- reduced quality of credit risk assessment because of the large number of loans;
- underestimation of credit risk because the estimation was based on the current state of the economy and sustainable growth of the collateral value in the future;
- facts of refinancing of existing obligations with the new loans;

• deterioration of the quality of loan portfolios of banks.

During the credit boom there were facts of negative figures of real interest rates on loans. For example, in 2007 and 2008 the average interest rate of commercial banks in relation to inflation was -3.1% and -6.3% respectively. This is compelling evidence that the banks actually provided loans at a loss, probably because of greater interest in expanding the number of borrowers that subsequently promised greater profits from their service.

Credit growth without adequate supervision policy on credit risks actually increased the destructive potential of the crisis, as provoked accumulation of huge volumes of debt in the banking system, which subsequently stopped to be properly maintained. Boundary figures of the growth of credit volumes can be determined from the historical data and information about their impact on economic dynamics across countries. The figure shows the maximum rate of bank retail lending which was in the years 2002-2009 in selected countries (Figure 4). The year when there were such maximum rate of loans are specified in parentheses

next to the country. In all these countries after the credit boom there was observed the sharp drop in lending, which was associated with either the following factors:

- 1) reduction or external financing (Ukraine, Belarus, Georgia, Azerbaijan) in 2008;
- 2) slowdown of economic growth because of the decrease in exports (Turkey, Kazakhstan).

Thus, after 2005 Turkey lost its competitive position in the market of the textile industry in East Asia, which affected the rate of lending and the trade deficit of the country increased dramatically. In Kazakhstan the impact of the global crisis became noticeable earlier than in other countries of Eastern Europe – in 2007 the economy of the country went into recession due to slump in prices on oil, which occupied 90% in the share of exports on the country. Further reduction in the rate of lending in Turkey and Kazakhstan has been associated with the crisis in 2008, the effects of which have been increased by the accumulated foreign debts of banks and the risks that have been accumulated in the banking system during the credit boom.

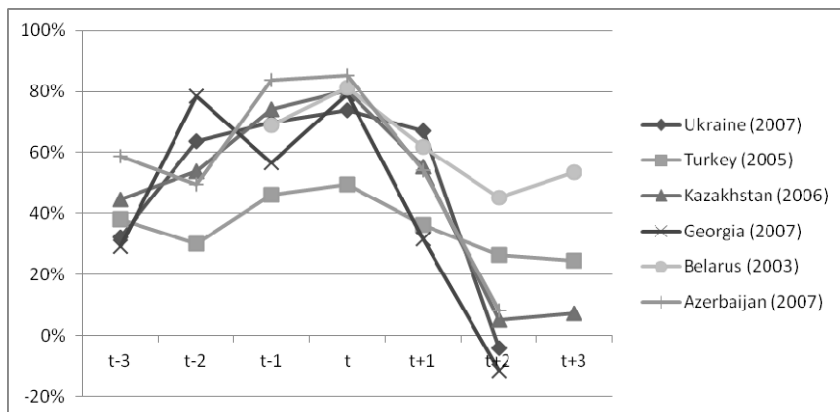


Fig. 4. Dynamics of lending during the credit boom in 2002-2009

\* Source: [5].

Thus, the rates of lending in the range from 50% to 80% are critical considering the financial safety of the country. After such cases of credit boom a sharp slowdown in lending and a crisis is likely to take place in the economy over the next two to three years. Such wide gap in lending rates range is associated with features of the economy, the structure of lending and ability of national regulators to take the necessary measures for risk management during credit boom.

**Impact of financial institutions on the monetary system of Ukraine.** Influence of financial institutions and, in particular, banks on the financial stability is caused through the both direct and indirect channels. Thus, from our point of view it is not so important the channels of influence themselves but the potential possibility of different indicators of financial institutions affect the achievement of the crucial parameters that determine the standing of financial system.

Influence of financial institutions on the stability of money market is determined with the measures in response to the economic challenges, the main of which is inflation. The consumer price index (CPI) form components such as core and headline inflation, while core inflation (which share in the structure of the CPI is 54.6%) determines the change in prices of food products with a high degree of processing, consumer goods and services that are not regulated by administration. Headline inflation (whose share in the structure of the CPI is 45.4%) is composed with raw foods (their share in headline inflation – 28.1%), administrative goods and services (15.7%), fuel (1.6%). Along with this, situation in the money market affects directly the narrow core inflation which is defined as the change in prices of non-food products except fuel (as

an indicator of imported inflation) and its share in core inflation is 17%. In September 2010, the narrow core inflation increase by 0.5p.p. (0.2p.p. is its contribution to the change in the core CPI) was associated with a weakening of the nominal effective exchange rate and strengthening the euro on world markets.

Under such conditions, there exists indirect impact of banks on the structure of the CPI: by establishing the level of consumers' solvency (interest rate policy on loans and deposits for households), changes in production costs (the cost of loans to producers), or a change in purchasing power of the national currency (the influence of exchange rate changes on prices of imported goods) and inflation expectations (including trust in the banking system and the national currency) (Batkovskiy V., 2009).

In addition, it should be noted that the critical level of inflation is also a controversial issue. One of the recommendations of the IMF to Ukraine is to reduce inflation to level less than 10%. In particular, European Central Bank has set a benchmark for inflation at 2% for the Eurozone countries. In the methods of calculating the level of economic safety there is defined 7% limit for this indicator.

Meanwhile, inflation is the target figure and is determined annually in the budget law, the responsibility for compliance with the target is on the government, and the competence of the central bank is to promote price stability. Therefore, to streamline the ability of banks to influence the price dynamics the permissible boundaries of inflation rate deviation from benchmark, that is customary, for example, in the UK (Prasad E., 2003).

The most obvious demonstration of the role of banking system in the stability of money market is the ability to influence the sizes of the monetary aggregates (Figure 5).

As seen in the figure, reducing the level of monetization made it possible to influence on inflation, which was received

in inheritance after the 2008 crisis. Along with this is the influence on the inflation is rather strategic than operational measure because the reduction of monetization in practice is a long process, which negatively affects economic activity.

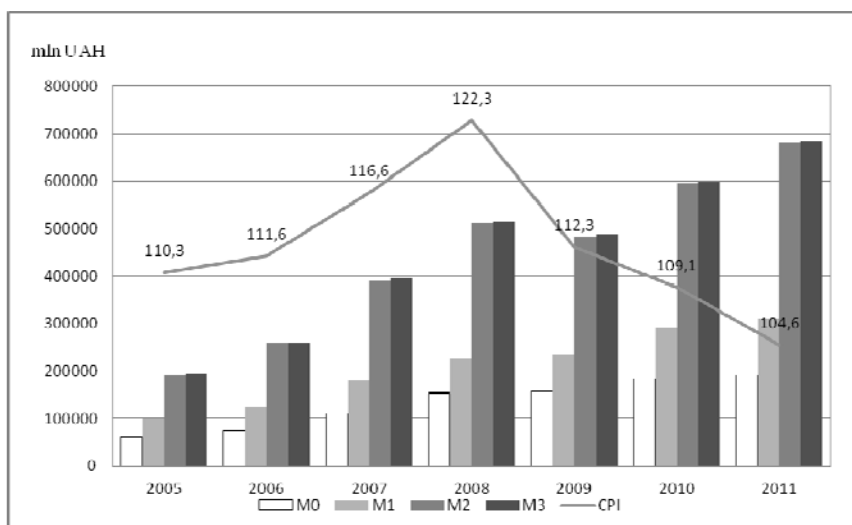


Fig. 5. Dynamics of monetary aggregates and inflation

Source: [13].

Over the past five years in circulation has been accumulated a huge amount of cash, an indicator of cash 4 times higher than the recommended amount during all five years. Overall, the growing demand for cash is evidence of mistrust of economic players to the financial system and expanding shadow sector of economy (World Bank and International Financial Corporation, 2012). It is also a evidence of the undeveloped banking sector, which is not able to absorb cash by offering adequate and convenient non-cash forms of payment and savings accounts.

Specifically, in 2009 the Ministry of Economy estimated that the share of the shadow economy had increased by up to 35p.p. of official GDP. In absolute value this is almost US\$40 billion of GDP, which was created in the shadow sector. Dur-

ing the crisis, the level of shadowing in general has risen by 10p.p. to a maximum of 39%. According to the independent research the overall size of the shadow economy in 2009 including criminal element is estimated at 45-47%, most of which is presented by the domestic business (Ministry of Economic Development and Trade of Ukraine, 2010).

Current trend in the development of the monetary system of Ukraine is the spread of quasi-money. The trend in the growth of monetization observed in all emerging market economies; monetization rate exceeds 50% and above, particularly in the Czech Republic it reached the level of 75% in 2009 (Table 1). Thus, in 2009, in Ukraine the ratio of monetary aggregate M3 to GDP was similar to the level of monetization in Poland and Turkey.

Table 1. Level of monetization of the selected countries

Country	2005	2006	2007	2008	2009
Eurozone	88%	91%	96%	102%	105%
Czech Republic	61%	64%	67%	73%	75%
Brazil	54%	58%	61%	64%	70%
Poland	43%	47%	48%	52%	54%
Turkey	40%	42%	44%	48%	54%
Ukraine	44%	48%	55%	54%	53%
Kazakhstan	27%	36%	37%	38%	48%
Belarus	19%	22%	24%	24%	29%
Georgia	16%	20%	24%	23%	26%
Azerbaijan	15%	16%	21%	21%	24%

Evaluation of this trend is unambiguous: in the case of an innovative investment model of growth monetization helps to increase production, and in case of the excess of the rate of monetary growth – contributes price stability. In general, it should be noted that the growth of the velocity of money circulation and the amount of "broad" money by expanding the range of financial instruments reflects the objective trends of money circulation – the introduction of new technologies in the field of payments, issuance of new payment instruments, expansion of electronic payments and more.

Interest rate channel is traditionally considered the main channel of Central Bank influence. Changes in interest rates effects the total cost and demand on capital, stimulates or restrains capital flow between different seg-

ments of the financial market which results in affecting the dynamics of macroeconomic indicators. One feature of monetary market of Ukraine is the lack of interest rate benchmarks, which complicates the process of assessing ongoing operations, minimizes the volume of operations, significantly increasing insurance premiums on risks which accordingly slow down the markets growth. Establishment of interest rate benchmarks prevents the imbalances of money market. Thus, 80% of the total money turnover occurs with overnight tools. About 90% of the turnover in the money market relates to transactions that are initiated by customers of banks and relatively small volume of transactions carried out by the decisions of the banks. The stan-

standard practice is to use tools of Central banks refinancing at rates significantly higher than rates in the money markets.

The absence of interest rate benchmark affects negatively the measures of influence on price stability because interest rates fluctuations become more uncertain. So currently an unofficial compromise is found – exchange rate flexibility is limited and interest rates are changed considering the price dynamics and the needs of the economy in cheap financing which is necessary to stimulate economic activity (National Institute of Strategic Research, 2011).

During the crisis, the National Bank of Ukraine has been keeping the discount rate at an acceptable level. In April, 2008 discount rate was increased by 2p.p. to 12%. Last time the discount rate has been reduced by 1p.p. to 11% in June 2009. This policy has had some positive effects: allowed to restrain the capital outflow from the country and curbed inflationary expectations.

#### Conclusions and recommendations

Quantitative and qualitative parameters of the economy of Ukraine determine special role and importance of financial institutions to ensure financial stability. The analysis of quantitative and qualitative figures of financial system of Ukraine shows that the structural and organizational weaknesses of the banking system led to the accumulation of risks and structural inconsistencies in the economy of Ukraine. Identified imbalances in Ukraine's banking system pose a real danger to the maintenance of stability in the financial sector and increase threat due to external and internal factors.

The analysis of credit activity of banks in Ukraine gives reason to argue that not only regional but also sector imbalances influence the economy of the country. Over 60% of deposit institutions are concentrated in Kiev and Kiev region, objectively resulting in greater demand for banking services and a high concentration of businesses, and attempting to avoid additional risk in regions with agricultural specialization.

Given the results of the analysis of the channels of influence of lending activities on the accumulation of systemic risk in the economy, the following changes in the methodological tools of assessment of the financial stability are appropriate:

1) setting the limit for the volume of lending of real sector at 40% (% of GDP), which corresponds to a positive economic dynamics of the country, observed since 2010;

2) new indicator introduction – the share of overdue loans to volumes of lending to real economy (%) with a limit no more than 17%. Selection of such limit is based on empirical studies of growth of rate of lending activity during the crisis that occurred in the world during the 1977-2003.

One of the key internal risks for Ukraine is the inflation risk. Thus, national feature is distrust of the national population and business to inflation figures that are presented by official statistics and work as quantitative "beacon" for politics. Inflation expectations which determine essentially the level of current inflation and its projected level are mainly influenced by the dynamics of the exchange rate. Practically it is the exchange rate is an anchor in inflation expectations for the population.

Analysis of the structure and dynamics of the components of inflation in Ukraine indicates a slight weight of monetary factors in the growth of the CPI.

Research of interaction between the banking system and the national economy through the interest rate channel reveals the lack of interest rate benchmarks in Ukraine through money market imbalances.

Contradictory influence of different factors leads to distortions in the instrument of financial policy. To solve this complex problem, integrated financial regulation needs to be introduced, such as:

1) the introduction of the format of two separate regulatory and supervisory authorities (model "twin peaks") –

financial supervisory service in the organizational structure of the NBU and the separate regulator of the financial market;

2) the expansion of the mandate of the central bank through a combination of monetary and financial stability objectives, which is enshrined directly in national legislation;

3) the implementation of financial stability policy not only in times of crisis, but continuously; expanding the range of preventive tools to promote financial stability;

4) ensuring full independence of the central bank when developing monetary policy;

5) the introduction of inflation targeting, which based on modern approaches – the inflation target should be higher, so there was room for a maneuver to reduce the interest rate during the crisis;

6) "flexible targeting" of inflation (inflation rate is enlarged the target level not immediately, but gradually, assuming fluctuations in consumer prices, if inflation expectations are remained unchanged);

7) enhancement of analytical and predictive abilities of the NBU to identify objectively the influence of monetary policy on the economy;

8) development of communications system for the mutual exchange of information with other public authorities, businesses, population to contribute a better understanding of the measures of the central bank to achieve the inflation target, improve the quality of forecasts of inflation expectations, strengthen confidence in the financial system.

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### ДИСБАЛАНСИ У ФІНАНСОВІЙ СИСТЕМІ УКРАЇНИ І КАНАЛИ ЇХ ТРАНСМІСІЇ У СИСТЕМНІ РИЗИКИ В МОНЕТАРНІЙ СФЕРІ

*У статті досліджено сучасний стан та основні дисбаланси в системі фінансового ринку України, що здатні суттєво впливати на досягнення монетарної стабільності країни в післякризовий період та період рецесії. Проаналізовані загрози, пов'язані із значущістю банківських інститутів та функціональною неадекватністю банківської системи у забезпеченні монетарної та фінансової стабільності. Обґрунтуванні висновки та заходи щодо застосування інструментів монетарної політики з метою зміцнення фінансової стабільності.*

*Ключові слова: фінансовий ринок; валютна стабільність; банківська система; кредитний бум; фінансові установи; систематичний ризик.*

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### ДИСБАЛАНСЫ В ФИНАНСОВОЙ СИСТЕМЕ УКРАИНЫ И КАНАЛЫ ИХ ТРАНСМИССИИ В МОНЕТАРНОЙ СФЕРЕ

*В статье исследовано современное состояние и основные дисбалансы в системе финансового рынка Украины, которые способны существенно влиять на достижение монетарной стабильности страны в посткризисный период и период рецессии. Проанализованы угрозы, связанные со значимостью банковских институтов и функциональной неадекватностью банковской системы в обеспечении монетарной и финансовой стабильности. Обоснованы выводы и меры по применению инструментов монетарной политики с целью укрепления финансовой стабильности.*

*Ключевые слова: финансовый рынок; валютная стабильность; банковская система; кредитный бум; финансовые учреждения; систематический риск.*

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### DISCOURAGING SHOCKWAVES UNDER SIMULATED GREEN SHOOTS AMONG DEVELOPED COUNTRIES

*Current paper performs a range of economic recovery signs during a permanent stagnation of the business cycle phase preview. However, most of those green shoots are simulated on the back of almost total macroeconomic policy disability. Meanwhile, an economic immobility escalates along with a new developing countries' domination trend. Mentioned forces finally pre-determine current macroeconomic policy architectonics.*

*Keywords: green shoots; shocks; monetary shocks; shockwaves; developing countries domination; discouraging trend; recession.*

#### INTRODUCTION

**Presenting the problem in its general outline and relation to important scientific and practical challenges.** Regarding macroeconomic agenda of the latest few quarters the global business environment and policies have faced another period for delusive expectations in 2013. Instability and uncertainty are the most referenced features of the world economy since the crises 2008. Reminding the latest data, it should be stated that the United States (the U.S.) had finished 2012 with 2.2% annual Gross Domestic Product (GDP) growth while Western Europe contracted by -0.5% recession.

Such results, nevertheless, were maintained with numerous green shoots so accurately fixed by policymakers. What are they? First and foremost is the housing industry, which represents directly or indirectly one in seven jobs in the U.S. and steadily demonstrates increasing trend since August 2012. Thus, experts concluded further improvement of the latter in about 8% till the end of 2013. Still housing's recovery in the U.S. is too overestimated as far as the major part of such deals refers to speculative stock trade with an unemployment level is above 7.5%. Other unemployment statistic data for developed countries is even worthier. Europe, where at least 12-25% of citizens are unsuccessfully looking for a job, can be taken as an example. Perhaps, further indifferent strategy around this issue will finally release in a new market bubble.

**Review of the recent studies and publications on the issue in questions.** The problem of current world economy instability, uncertainty and global market force potential disproportion is widely discussed in academic surround and on the policymakers' sidelines. Among the

first are O.Blanchard, B.Bernanke, J.Cochrane, G.Cohen, M.Draghi, P.Krugman, Ch.Lagarde, N.Roubini, A.Sparrow, J.Stiglits, D.Wessel, J.Yellen and other great scientists and public figures. Lots of them got a sight of the latest trend, briefly shown as developing countries domination, especially concerning GDP growth prospects. Looking through the latest works of B.Bernanke, H.Walsh and M.Dakers including Financial Times and Vedomosti analytics we are able to conclude that the Asia Pacific region is set to be the fastest growing region in 2013 with real growth of 5.9% forecast. Developed countries, instead, expect the growth of 1.4% in real terms in 2013 while the main engines of growth, the developed countries, are forecast to expand by 5.5%. Finally, we are aware of the Europe Union (EU) economic results in 2012 that are contracted by -0.5% before returning to growth of 0.2% in the first quarter of 2013 [1].

**Statement of the paper goals.** Current paper is aiming to improve understanding of the modern allocation of forces among greatest economic potentials. Another aim is to single out the most probable shockwaves basing on the green shoots simulated nature assumption.

#### DEVELOPING COUNTRIES DOMINATION AND SHOCKS

**Main material of the study with evaluation of the research results.** As International Monetary Fund (IMF) predicts, the share of developing countries in 2013 among the world GDP will outweigh the share of developed as 50.9% per 49.1%. Previous year results showed that developed economies managed to maintain a very slight advantage assessed as 50.1%. The contribution of emerging economies will continue to grow and going to reach 55% by 2018 (\*forecast) (Fig.1).