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## THE GLOBAL TENDENCIES OF THE WORLD FINANCIAL SYSTEM DEVELOPMENT

**Abstract.** The article provides the investigation of the global financial system's prospects. The preconditions, features and modern tendencies of its functioning are defined.

**Key words:** financial system, world financial system, fiscal space, global financial resources.

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## ГЛОБАЛЬНІ ТЕНДЕНЦІЇ РОЗВИТКУ СВІТОВОЇ ФІНАНСОВОЇ СИСТЕМИ

**Анотація.** Стаття присвячена дослідженню перспектив розвитку світової фінансової системи. Визначено передумови, особливості та сучасні тенденції її функціонування.

**Ключові слова:** фінансова система, світова фінансова система, фінансовий простір, глобальні фінансові ресурси.

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## ГЛОБАЛЬНЫЕ ТЕНДЕНЦИИ РАЗВИТИЯ МИРОВОЙ ФИНАНСОВОЙ СИСТЕМЫ

**Аннотация.** Статья посвящена исследованию перспектив развития мировой финансовой системы. Определены предпосылки, особенности и современные тенденции ее функционирования.

**Ключевые слова:** финансовая система, мировая финансовая система, финансовое пространство, глобальные финансовые ресурсы.

**Problem statement.** The present-day world financial system is a multi-entity one which means that no international fund of monetary means focused in a particular place and which is the property of a particular entity of the global economy. The financial resources of the world are predominantly circulating, and make up the global financial market. Like any other category, the multi-entity world financial system requires a constant renewal via the impact caused by the changing factors of both internal and external environment. In addition, a significant impact on the global financial system is caused by the global developments in trends and directions of international capital flows. The peculiar features of the world financial system are formed primarily under the influence of a specific development of the global economic space. The reasons for this should be seen in the first place in the impact of the global financial crisis, which has led to a significant strengthening of a regionalism trend in the world; secondly, the need to find mutually beneficial economic decisions; thirdly, a mental, cultural and historical proximity to neighboring countries; fourth, the presence of common views for the representatives of the same region as for the issue of granting sovereignty, rule of law and justice that enables a faster search of compromise needed to define and implement a common policy to achieve common goals. In order to protect the national interests from external influence, which was particularly noticeable during the crisis, the countries that are the new centers of growth, invest more in the development of regional cooperation mechanisms, thereby increasing its regional leadership.

**Relevance of the research topic** consists in the necessity in an integral and comprehensive research and justification of the tendencies of the world financial system taking into account significant impact on the operation of this system caused by the external factors, primarily - by globalization processes.

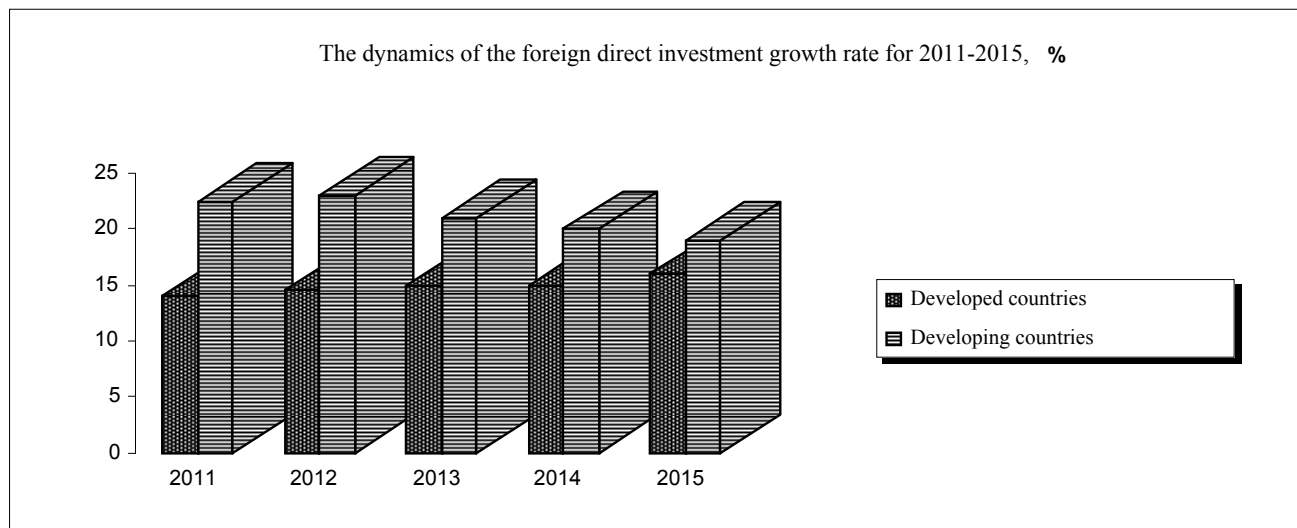
**Analysis of latest research and publications.** The above issues are the subject of research of many Ukrainian scientists. In particular, the problems of the world financial system are considered in the works of such scholars as S. Borynets, A. Halchynskyi, V. Geyets, G. Klimko, P. Krugman, D. Lukyanenko, Z. Lutsyshyn, R. Makkinon, J. Stiglitz, V. Fedosov. A special attention in these works is drawn to the features of the financial system development, and also to the specific features of the world market formation as an important component of the world economic complex. However, the current priority issues and the future prospects of the development and reforming of the global financial system taking into account the changing conditions of the global economic space require a special attention.

**The research objective** is the justification of the global trends in the world financial system at this stage. It involves the availability of the following tasks: defining features of the global financial system, research of the priorities and restraining factors for its effective operation, isolating the directions of its possible transformation.

**Presentation of the main research material.** To the global development trends in the world financial system should be listed the following ones: growth of the rate and scale of international financial transactions in recent years, which almost 40 times exceed the scale of the world trade; the emergence of new segments and instruments of the world market; the growing importance of network-organized business groups whose goal is to maintain a continuous active flow of financial rents and added value in the long term; extension of these processes' role for a country, and for the international and supranational institutions; reducing the share of loans in the structure of the international capital

flows during the intensive growth of the portfolio investment share and a slower growth of the direct ones; the development of private capital migration between the developed countries, including the US, EU countries, Japan and the countries of South-East Asia and Latin America, with high rates of economic growth (China, Singapore, Malaysia, Brazil); an increased competition to attract foreign investments, which leads to the development of special national programs for their stimulation [2].

Changing the growth rate of foreign direct investment is determined not only by a temporary deterioration of the investment climate in many developing regions, but also by the development processes of cross-border fusions and absorbtions (Fig. 1):



**Figure 1. The dynamics of the foreign direct investment growth rate for 2011-2015, %**

Changes in the volumes of the foreign direct investment is preconditioned by the following reasons. First, the globalization of the economy and trade liberalization and the extension of an easily accessible global market space, the struggle for which requires a substantial strengthening of the position of its potential participants. Second, the rapid shift of the center of gravity of international competition to the sector of high technology products and services, and increase R & D spendings, which makes corporations to distribute such costs among themselves and thus reduce their burden via mergers and acquisitions. Thirdly, the problem of overproduction, epy reduction in sales and revenues of individual companies, which have long been working in specific areas. The integration of financial markets has led to simplification of capital flow procedures. The main monetary-credit coordinating authorities face difficulties in predicting or identifying timely those flows of capital that can destabilize the financial markets so that can adjust the volume of proposals. Market integration enhances the vulnerability of the financial market and complicates the problem of control over its operations.

All the aspects mentioned above require the justification of the global trends in the world financial system. The decisive influence on changes in the infrastructure of the global financial system is caused by the process of globalization. In the light of the aforementioned aspect the forms of its manifestation are contained primarily in the following. First, the growth of the global financial market and the financial transactions carried out between different actors of the economic relations, the change in the structure of the major importers and exporters of capital. The main exporters of the capital are Germany, China, Saudi Arabia, Japan [7]. The light of their regional affiliation, such distribution characterizes the shift of financial power in the world economy for the benefit of these countries. In recent years, the imports of capital increased a long-term tendency towards the increase of the share of the developing countries, including the countries in economy transition phase as the recipients of the foreign capital. At the same time, despite the fact that the developing countries and countries with economies in the transition phase become more attractive to foreign investors, who still direct more than half of the total volume of investment for industrialized countries. A great number of the investments is related to the process of the capital concentration, mergers and acquisitions of foreign companies, mainly in such areas of the world economy as financial services, energy, communications and telecommunications, pharmaceuticals.

Secondly, the spread of the global financial sector beyond the available control, requires, above all, the reform of the current system of control with a shift of emphasis at the coordinating component. Thirdly, the need to develop a common strategy for regulation and coordination of the global market. We are talking about the development of common legal norms within which it would be possible to monitor the functioning of the financial institutions. As a successful example of an effective joint coordination and management we use the European Union, which have not only created a unitary currency system, but also have laid the foundation for harmonizing the financial and, more generally, economic policies of the Member States. Not relying on the regional or supranational decision, but based on current trends in the global financial system, stock exchanges in Europe have implemented the latest trends in the development of rational mechanism of the global financial system. [6] Fourth, the development of the agreed schemes of the world

economy, especially at the level of international financial institutions, particularly the IMF and the World Bank with a clear division of responsibilities and strategic plans and short-term developments in the global financial environment.

In general, the globalization of the financial system is contained in the interaction of the following elements: a) technical progress allowing to make international financial transactions in real time and significantly reduce the costs of transport and communication; b) increasing competition, on the one hand, between credit and financial institutions in the financial markets, on the other - among the most significant financial markets as a result of development of the information technology and telecommunications; c) restructuring of the credit and financial institutions through mergers and acquisitions as a result of increasing competition between them; d) broad business internationalization by strengthening the transnational nature of corporations; e) consolidation of regional integration associations (in Europe - Economic and Monetary Union) f) lessening the strict control over the implementation of international agreements related to the movement of capital, deregulation of stock exchanges both in industrialized and in other groups of countries; g) macroeconomic stabilization and reform in a number of developing countries and the countries with economies in a transition phase, which have created a favorable climate for foreign investors.

Among the rest of external factors influencing the globalization developments in the world financial system we should highlight the general trends of the world economy, including:

1) The growth of transnationalization that requires the formation of rules and procedures for the free flow of foreign investment. This is due to the need to reduce the existing restrictions on the activities of TNCs, eliminating conflicts between the countries that compete for foreign investment in global production.

2) The development of the information revolution, the creation of global information systems and global electronic networks, which is at present the most important factor of economic growth.

3) The widening of financial globalization processes. First of all, the increase in the intensity of cross-border financial transactions of transnational corporations and banks, the emergence of new mechanisms and instruments of international financial transactions and formation of a global financial market, which promotes the redistribution of significant financial resources [3, p.134].

The financial globalization has a different impact on the development of the national financial systems. On the one hand, it allows countries to get more resources they need such as money and capital, and the corporations can get incomes from more effective investment of the available resources. On the other hand, there is a risk of an increased global financial instability, hence significant losses for all entities that operate in the world financial environment [5]. To the main global trends in the world financial system we should include: the internationalization of the economic life, the development of science and technology, liberalization of international monetary relationships and financial markets, enhancing the integration of the national markets of money and capital, revolutionary changes caused by the introduction of modern technologies and development of communication tools, enhancing the competition on the financial market, changing traditional trading systems (exchange -traded and non-exchange-traded) under the influence of modern technology that creates new automated trading system, the objective need for transformation mechanism of the global monetary system as one of the key components of the global financial system.

Along with the above-mentioned prospects, a particular importance is acquired by the adaptability of the global financial system and its ability to respond to the impact to the crisis of the global financial space. The main global factors influencing these processes should be the following. First, the industrial type of production, which has ensured high economic growth based on large-scale involvement of natural and human resources. Such intensive development leads to a worsening of inequality in the economic and social development of the world community [4]. The further growth and expansion of the industrial type of production based on flawed financial mechanisms and instruments can have negative consequences. At the same time, modernized economic instruments, including its financial component in the post-crisis period should focus on restructuring both of the global economy in general and its regional and national branches, establishing a new model of development – the knowledge economy, high technologies, creative economy [1].

Second, the delay in addressing the structural problems of the global economy, conservation of archaic preindustrial and early-industrial economies set the stage for a repetition of crises in more acute forms. It should be noted that there are significant differences in the structures of the economies in the developed countries and the developing countries. The main criterion is the ratio of the goods and services production. In the perspective up to 2030 we can see the trend to reduce the existing gap, though between certain countries there will remain striking structural contrasts. Third, enhancement of structural imbalances and the global imbalances between the major world economic entities, synchronization of economic cycles influenced by the globalization. First of all, the enhancement of mismatch between global supply and global demand, which leads to the formation of an unbalanced state of the global economy, enhancing tensions between the main actors of the world economy in trade and investment.

Fourth, the failure of the international financial system, including its regulatory and supervisory authorities, to respond adequately to the challenges of globalization. We are talking about the functioning of the Bretton Woods-Jamaican monetary system and its basic unit - the International Monetary Fund. The system in its current form has major drawbacks. First, it lets multiple countries for a long time to keep net surplus of the current or financial account and the capital account (Japan, China, etc.), leading to excessive accumulation of international reserves. Today, significant gold-value reserves are concentrated in China (2033 billion US dollars), Russia (435 billion US dollars), India (274 billion US dollars) and Brazil (197 billion US dollars). [7] Second, an excessive credit provision, an investment boom of recent years by recycling dollars through government securities led to disruption of global proportions between the production and consumption, which can cause irreversible deflationary processes.

**Conclusion.** The globalization processes are crucial for the development trends of the world financial system. In the aspect mentioned above the forms of its manifestation are revealed primarily in the following: the growth of global financial markets, financial transactions carried out between different actors of economic relations, changes in the structure of the major importers and exporters of the capital; exist from the global financial sector into the limits beyond the available control, which requires, above all, to reform the current system of control with a shift of emphasis towards the coordinating component; the need to develop a common strategy for regulation and coordination of the global market; development of agreed development schemes for the world economy, especially at the level of international financial institutions, particularly the IMF and the World Bank with a clear division of responsibilities and the strategic short-term plans of situation developments in the global financial environment.

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