THE STABILITY OF INTERNATIONAL FINANCIAL MARKETS VERSUS EMERGING ECONOMIES VULNERABILITY

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Abstract: If during the global economic and monetary-financial felt in the last seven-eight years was observed that the most affected countries were those with a developed economy currently it seems that the wheel turns and target countries with an emerging economy. Thus, the financial markets of advanced countries seem to be characterized by stability in opposition to those of emerging markets, which seem to become increasingly vulnerable.

This paper tries to capture the current economic situation of the two categories of states, from the major aspects that determined the evolution of socio-political and macroeconomic indicators, presenting the statistical data and trying to predict future period. A special importance should be given to international markets. Given that the extension of global economic integration and cooperation on the international market participants are relative conditioning is required for a consensual approach and multilateral thereof, for reducing and avoiding imbalances in the international trading system. We will take into account the need to involve politics in parallel with the adoption of measures specific to each category of state. All these issues will be addressed further.

JEL classification: F2, F3, F5, F6, G1

Key words: emerging economy, vulnerability, liquidity risks, globalisation, governance

1. INTRODUCTION

If during the global economic and monetary-financial felt in the last seven-eight years was observed that the most affected countries were those with a developed economy; now it seems that the wheel turns and target countries with an emerging economy. Thus, the financial markets of advanced countries seem to be characterized by stability in opposition to those of emerging markets, which seem to become increasingly vulnerable.

According to data provided by the International Monetary Fund, emerging markets risk becoming vulnerable, given the high risks of market liquidity. Analysts of International Monetary Fund believes that although emerging economies have strengthened the political and resilience to external shocks, many of these register significant domestic imbalances, coupled with insignificant increases.

Among the measures adopted by countries with emerging economies in the fight with the problems created by the international economic, monetary and financial crisis were counted and increasing loans; thus, the risk of higher interest payments associated with exposure to currency risk, have led to more quickly leverage private sector funding. On the other hand, in emerging economies, the banking system has not undertaken until

recently, measures aimed the poor conditions of some key areas of the private sector or increase the value and quality of managed assets. Antithetical, banking system in countries with developed economy aimed to minimizing leverage, increasing capital and reinforcement arrangements with creditors. We must point out that among the countries with emerging economies most affected by the financial and economic crisis were those in Europe; so, analyzing the macroeconomic indicators as gross domestic product can be seen that during 2007-2010, we talk about a reduction in GDP growth from about six percent to minus six percent for emerging european economies, from about 6.5 percent to 2.5% for the economies of the Middle East, from just under four percent to minus 2 for the western hemisphere and from six percent to just under two for emerging countries in Asia.

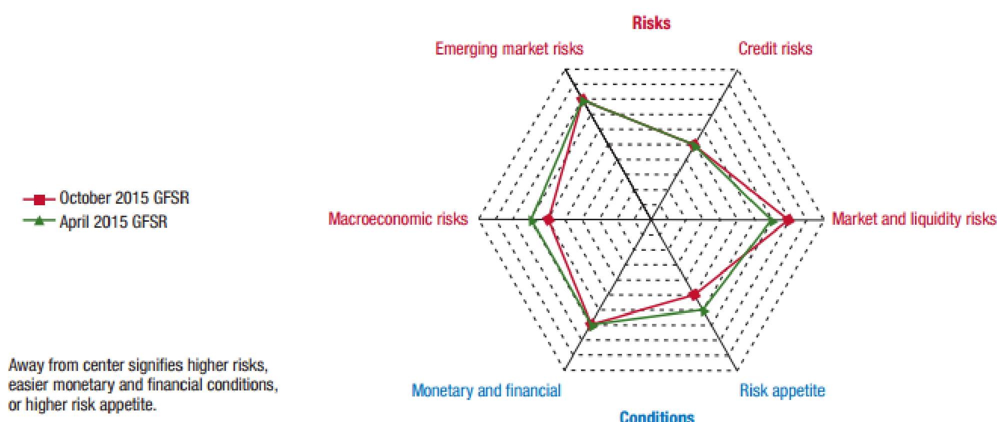
2. Global Financial Stability?

In the past two years, developed economies have become more stable financially, given the fact that monetary policies have been strengthened, confidence is confirmed by reducing the risk of deflation in the euro area member states. This was materialized in credit conditions more attractive, stimulating demand, along with an increase in investment, not only in developed european eonomies, but also in the asian economies (Japan) and american economies.

Even if the situation seems to be okay for states with a developed economy, analysts believe that in the next 3-5 years growth will be modest for both types of economies, developed and emerging. Actually, short term we talk about a decline in economic growth, although states have made every effort to enhance resilience to external shocks. Forecasts include factors such as slowing down / reduced economic growth prospects in tax degradation (with effects on private demand and on the recovery of financial markets) and further increased the budget deficit. Today, businesses are more vulnerable to financial stress and capital outflows. For developed economies, debt issues, both the public and private, continues to manifest itself, creating difficulties in the eurozone architecture. Providing complementary perspectives on the systemic analysis of the architecture of European governance, but also the global governance, in the context of its downsizing, contributing to the awareness of the participants in the international arena, the need and usefulness of a well-functioning institutional factors; all these given the current and future needs, but also the changes that have occurred during some major events, such as integration and globalization. In addition, it should be noted that global governance must cover not only the establishment and management of institutions but also systematize specific rules work done by actors global trading system by presenting rights and obligations, as well as ways remedial conflict situations. So, the proper functioning of the institutional factors will be the result of cumulative attributes such as efficiency, legitimacy and transparency.

Participants cooperation on international market and expanding economic integration worldwide are in relation to the mutual conditioning, identifying, however, as parts of a whole, namely globalization. The unprecedented growth of international trade, movements technological and investment is a constant current of the economic environment, diversity of operations resulting in the need for a consensual approach, multilateral stakeholders, avoiding the emergence of new imbalances and challenges of the international trading system and resolving existing ones. Closely related to these issues is the issue of governance from the perspective of emerging economies and their growing influence on the functioning of the international trading system. As shown in the definition of global governance, this involves an interaction of transnational actors all in order to

remedy the deficiencies that damages more than one region / state. Within transnational actors, an important place occupies emerging countries.



**Note: GFSR = Global Financial Stability Report*
Source: *Global Financial Stability Report—Vulnerabilities, Legacies, and Policy Challenges: Risks Rotating to Emerging Markets, International Monetary Fund, Washington, October 2015, p. 2*

Figure no. 1: Global Financial Stability Map: Risks and Conditions

Considering the disorganized and unpredictable system of international markets, it needs the involvement of politics, to help restore a normal state. We must not let disarmed of the fragile perspectives in connection with economic and financial-monetary system international conditions, of the modest economic growth or financial stability sensitivity. This requires addressing several issues, such as:

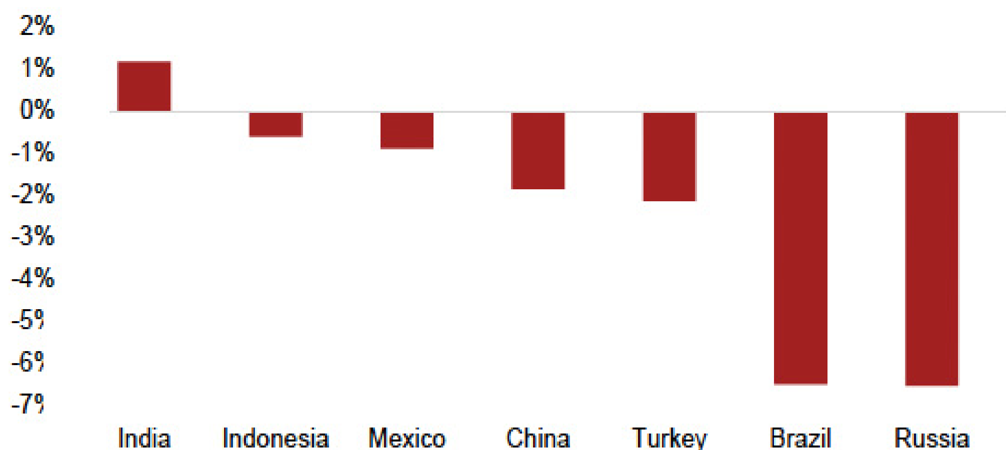
- Countries with emerging economies require measures to help restore equilibrium; given the reduced global demand, slowing down economic growth and reduce agents' activities. Analysts believe that the measures adopted by countries with emerging economies, especially China (cheaper bank loans, increasing exports etc) were not exactly favorable; also these countries should aim at reducing indebtedness.
- European states, especially those belonging to the euro area must pursue recovery of the overall situation by strengthening monetary and financial system, by increasing the confidence of the population and businesses in the single currency, and an increase in investments. Recovery requires that the euro zone countries to address the issue of nonperforming bank loans, which exceeded 880 billion euros at end 2014 (in 130 banks). Meanwhile, both the population and businesses need credit to recover, and if these banks with bad loans they may grant, then the situation shows no opportunity for recovery.
- International financial stability should begin where monetary and financial crisis broke out, namely the United States. If in the last 8-9 years, the Federal Reserve System of the United States used lax monetary policy, for normalization is required for them to accept increased interest, avoiding thus any market disturbances due to the long period on the lax policies. This growth must be managed properly so that the market perceive as justified and consistent monetary

policy relaxed; also, FED must ensure transparency of information, the latter requiring a clear and coherent approach.

Meanwhile, amid disorganized markets, but also because of the potential shocks given the vulnerability of the financial system it is possible that an increase in US interest rates is stopped too early, which would hinder the global economic recovery. According to data provided by the International Monetary Fund analysts these shocks "could come from advanced economies - Possibly because of high contagion effects from Greece to the euro area and international markets- or from emerging markets for example, the externalities above expectations in China ".

In this case remains to see how things evolve; thus we speak of a greater distrust of the population in political decisions, a fall in productivity, a decline in international financial stability, all participants would be affected in the medium and even long term. Companies, like potential investors analyze the interest rate, wages, prices, in order to move towards the most productive segments and to decide whether or not it is worth the investment. Even if production is dictated by scarcity of production factors, the items listed above are closely related to the degree rarity. Or, if all of these aspects of the market are unfavorable, it is easy to deduce that will decrease and investment.

Shocks given the vulnerability of the international financial system have been thwarted by countries with emerging economies by increasing foreign reserves, a move towards exchange rates available (through the adoption of flexible exchange rates and increased gang variation of currencies such as the yuan), attracting as many flows of foreign direct investment, and impose strong measures. All they no longer work in the current environment due to capital outflows and reduce economic growth.



Source:*http://www.consultancy.uk/news/3513/emerging-markets-economies-increasingly-vulnerable-says-pwc, consulted at 15 september 2016*

Figure no. 2: Comparison between real GDP growth average and the medium-term average (difference in 2015)

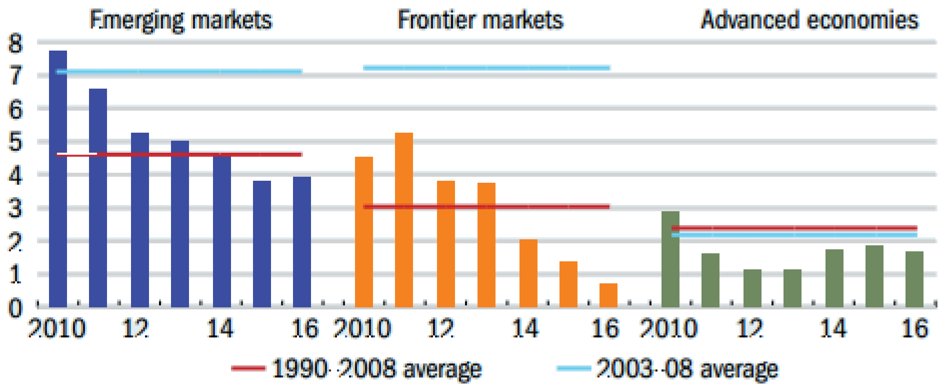
In the case of countries with developed economies, need to consider issues such as private and public debt, weaknesses in the banking and financial system, elements of the overall global market liquidity, etc. in order to obtain a balance of both the international markets in particular and the economy in general. Lately, they were observed in the E7 emerging economies forming group (China, India, Brazil, Mexico, Russia, Indonesia and

Turkey) slowdown of economic growth. The only one who can say he escaped, at least for the moment, is India.

Thus, as can be seen from the above chart, if we analyze the difference between the real growth of the GDP average population in 2015 and growth in the medium term it is clear that Indonesia and Mexico have decreased around 1% each, China and Turkey 2%, and Brazil and Russia have close to 7%. As I mentioned, the states with emerging economies recorded not only internal imbalances, but an insignificant increase. For example, as shown by the main platform online consulting industry in the UK (consultancy.uk), the Chinese state would have gone from an average growth of over nine percent in the last thirty years, to just under seven percent from last year's level and six and a half this year. In the next 5 years, the same experts foresee an average of 5.7-5.8% and believes that the Turkish state is a high risk because of state debt in foreign currency, exceeding half of gross domestic product, at the same time of depreciation of the Turkish lira.

3. CURRENT SITUATION AND OUTLOOK

In the chart below it can be seen slowing mentioned, since 2010 and up to 2016 for three categories of countries: emerging economies, with frontier markets and advanced economies/developed. It also notes, and the average for the period 1990-2008, and for 2003-2008, it is expressed as weighted average increase in real gross domestic product, percentage:



Note: Long-term average for frontier markets begins in 1993 because of lack of data before then. Countries categorized as emerging markets, frontier markets, and advanced economies can be found in World Bank (2016). GDP numbers for 2016 are forecasts*

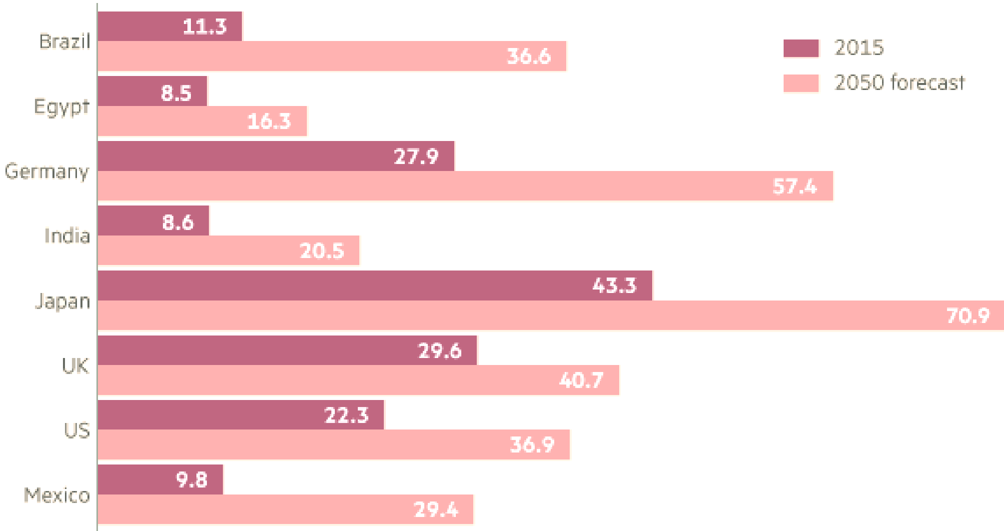
Source: Raju Huidrom, M. Ayhan Kose, Franziska L. Ohnsorge *(2016). A Ride in Rough Waters, Finance and Development, September 2016, Vol. 53, No. 3, International Monetary Fund, Washinghton, p. 34*

Figure no. 3: Heading down growth in emerging market economies began to slow in 2010. (weighted average growth in real GDP, percent)

Even if we group them as E7 or BRICS (Brazil, Russia, India, China and South Africa), the factors that led to the economic downturn of these economies are the same and have dual nature: domestic and foreign. Figure 3 is the one that supports the transformation mentioned, as you can see, the last part of 2010 and early 2011, emerging countries have slowed economic growth, which has continued until today. For 2016 we expect a slight

recovery from the previous year, but not very important. If initially, as I stated above, the factors that led to this transformation focused primarily external market today are taken into account factors local, specific to each nation and we start from a regression of productivity, the importance of factors such political, reaching strictness of national budgets.

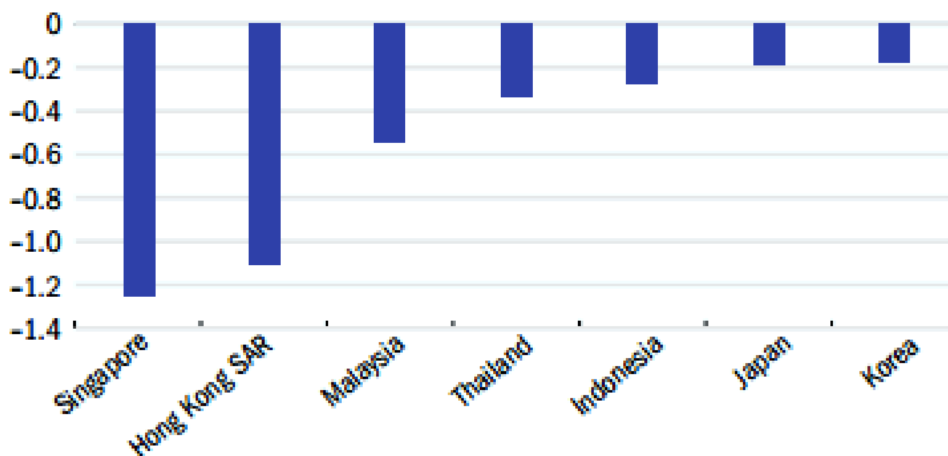
It should be noted that when productivity regression remember, this is interconnected with the existing population; more specifically, its aging. Decreased fertility, decreased growth of the young population and the elderly are the defining feature not only these economies but the world in general. The immediate consequences will likely be negative, leading to degraded performance of the business and investment, and therefore socio-political instability.



Source: Emerging markets face credit threat from ageing populations, Financial Times, available at https://www.ft.com/content/fc9b7c72-1224-11e6-91da-096d89bd2173, consulted on 30.09.2016

Figure no. 4: Old-age dependency (% of population)

Another effect of aging is increasing the public debt of the states. Why? The answer is deduced simply from a natural algorithm: working population decreases, the elderly population grows, thus the need for more social programs and these do not have from where be funded. So immediately we are dealing with a disturbance of the public finances, while increasing the debt mentioned and immediately with political instability. Countries included in this algorithm are Turkey, India, and Brazil; is expected for the emerging Latin American dependency ratio of the elderly population will be three times higher in the next three decades. As shown in the figure above, if in 2015, Brazil record level of 11.3% in 2015, it is expected to increase to 36.6%. Similar is the situation for Egypt, Germany, India, Japan, Britain, the United States and Mexico. If the corresponding values of 2015 were 8.5%, 27.9%, 8.6%, 43.3%, 29.6%, 22.3% and 9.8% for those states, at 2050 are expected values of 16.3%, 57.4%, 20.5%, 70.9%, 40.7%, 36.9% and respectively 29.4%.



Source: ***Raju Huidrom, M. Ayhan Kose, Franziska L. Ohnsorge*** *(2016). A Ride in Rough Waters, Finance and Development, September 2016, Vol. 53, No. 3, International Monetary Fund, Washinghton, p. 36*

Figure no. 5: Spillovers from growth fluctuations in China(GDP growth, percentage points)

On the other hand, the relationship of interdependence between emerging countries is undeniable; affecting one economy will have an impact on the others. Breaking one link will involve the entire chain. In this regard, if the Chinese state (whose economy is the largest in the BRICS group) experience fluctuations in growth, will definitely be affected and Singapore, Hong Kong, Malaysia, Thailand and Indonesia.

As the IMF specialists show, If China were declining by one percentage point for economic growth, its neighboring states would be seriously affected. It can be seen in the figure no. 5 that Singapore would have a decline of -1.3%, Hong Kong -1.1% -0.5% Malaysia, Thailand and Indonesia around 0.3%, while Japan and Korea almost -0.2%. Of course, we must remember that contagion is different from region to region, depending on the trade relations between states.

4. Conclusions

Things come and go; it happens not only in everyday life, but also in the international economy. Thus, crises come and go, either easier or harder, economic booms the same thing. All processes are progressive and do only le to the maturing premises, deducting conclusions and ideas will be issued in connection conected, forming the world economy, based on interconnected markets, integrated. Currently, we can not say that no longer feeling the effects of the economic crisis and international monetary-financial. In fact, although some aspects have stabilized, other sides just now bustles. This is the case of the emerging economies; they are in opposition to the international financial market stability. If they triumphed in the crisis, or at least were spared the epicenter of the crisis, today all specialists notes the vulnerability of emerging markets.

Importantly, in terms of their size, emerging countries influence the international market. For example, between 2010 and 2014, BRICS countries accounted for 40% of global growth. Therefore, their vulnerability will be felt by other participants in international trade.

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