

анализируется как инвестиции для настоящего и будущего в различных уровнях, как на уровне личности, так и на уровне общества в целом.

Ключевые слова: здравоохранение, качество жизни, рабочая сила.

РЕЗЮМЕ

Аналіз показав, що рівень розвитку країни безпосередньо впливає на рівень сектора охорони здоров'я. У статті аналізується сектор послуг охорони здоров'я та його зміни в Литві, описується сутність якості життя, що вкладаються в витрати сектора охорони здоров'я, аналізується як інвестиції для сьогодення і майбутнього в різних рівнях, як на рівні особистості, так і на рівні суспільства в цілому.

Ключові слова: охорона здоров'я, якість життя, робоча сила.

FINANCIAL INTEGRATION: BENEFITS AND RISKS

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The goal of this article is to present the benefits and risks of financial globalization for developing countries. In this stage of globalization it is very important to examine the consequences and effects of it, because almost all countries around the world are involved in the process of financial integration and globalization. There are different opinions about the benefits and risks from financial globalization, so I'll try to present the balanced view of it.

Financial globalization is the integration of country's national financial markets to global financial markets, which realizes by liberalizing domestic financial system and capital account, increasing cross country capital movement and doing more financial activities in the global financial markets.

In the last decades, countries around the world have become more financially integrated, motivated by the potential benefits of financial globalization [1]. The main benefit of financial globalization is the development of the country's financial sector. Financial markets become deeper and more sophisticated when they integrate with world markets, because it increases financial alternatives for investors and borrowers. Financial markets which are integrated in global financial markets enable international risk diversification and help consumption smoothing.

The potential benefits of financial globalization will likely lead to a more financially interconnected world and a deeper degree of financial integration of developing countries with international financial markets. As we have already mentioned, the main benefit of financial globalization for developing countries is the development of their financial systems. A better-functioning financial system with more credit is important because it fosters economic growth [2]. There are two main channels through which financial globalization promote financial development. First channel is that financial globalization implies that a new type of capital and more capital is available to developing countries, which allows countries to better smooth consumption, deepens financial markets, and increases the degree of market discipline. Second channel is that financial globalization leads to a better financial infrastructure, which mitigates information asymmetries and, as a consequence, reduces problems such as adverse selection and moral hazard [1].

Although financial globalization has a lot of potential benefits, it also proposes new challenges and risks. These risks are more likely to appear in the short run, when countries open up. The main risk is that globalization can be related to financial crises. The crises of the 1990s have questioned the benefits of globalization, because it happens when many countries liberalized their financial systems. Countries become exposed to external shocks and crises not only generated in their own country but also from contagion effects. In the first stages of liberalization and integration it can lead to increased risks, if the right and well-functioning infrastructure is not in place or put in place. Moreover, in a financially integrated economy, policymakers have fewer policy instruments to conduct economic policy.

Countries can benefit from financial globalization and they must take advantage of it. Financial liberalization leads development of the financial system, strengthening the financing opportunities, reducing the cost of capital, and increasing investment and liquidity. At the same time, the evidence does not suggest that financial volatility increases after financial liberalization. Crises have had a very huge impact on growth in some countries, but in other cases the recovery has been rapid. Also, it would be quite hard to persuade that economies would have grown as fast as they did it if they had remained closed.

While the potential benefits from financial globalization can be large, we are yet far from full financial globalization [3]. Even in open countries there is still an important home slope. Though there are potential benefits from globalization, but there is range for a much deeper financial globalization and for much larger gains. Many countries are already partially open, and the prospect is for an increased globalization of financial markets, but paradoxically, the increased globalization can reduce the range for risk diversification because integrated financial markets are more correlated.

For lowering the probability of crises and contagion and in enabling more effective management of crises and risks the healthy macroeconomic and financial fundamentals are key factors. Preventing currency and banking crises must be one of the primary objectives of any policymaker because the crises have high cost. This objective is more important in a world of free capital mobility because both foreign and domestic investors exercise market discipline and beside this, foreign crises might have contagion effects at home. Even if a country has healthy fundamentals the attacks on currencies can occur whenever confidence is lost. A crisis in a foreign country can rapidly trigger a crisis at home. Weak fundamentals tend to panic of investors more easily and make crisis management more difficult. Countries which have weak fundamentals have fewer instruments to use for overcoming crisis. Therefore, countries must focus on key policies that help them prevent and manage arising crises. Improving the contractual and regulatory environment is also important. Better institutions make an emerging country more fit to join in the financial globalization process. Also, improvements in the contractual and regulatory framework can enhance the access of resident corporations to financial services which supplies abroad.

For financial globalization also are important the initial conditions. The effectiveness of policies depends on the degree of integration with world markets. Countries with a very low degree of integration with world capital markets and with underdeveloped financial markets are more able to reverse the process of financial globalization than countries already partially integrated. A country with a low level of integration should ensure that its financial sector is prepared to withstand with open capital markets. If the domestic financial sector doesn't manage risk properly, doesn't have sufficient reserves and capital, or doesn't have the right incentives, large capital inflows and outflows can create severe problems in the domestic financial sector [1]. Nevertheless, it is not the case that all the conditions need to be met before governments liberalize the financial sector. The process of integration in some ways can itself help to improve the domestic financial sector's conditions. When countries develop, more comprehensive policies for risk management will be needed. In more open economies, the distinction between foreign and domestic capital becomes increasingly difficult. As the economy becomes integrated with the rest of the world, restraints to capital movements are more difficult to make effective since they can be circumvented easily. Therefore, a more comprehensive approach will be needed to build solid financial economies, which involves proper regulation and supervision of the financial system.

As we have mentioned above, when economies become more integrated, governments have fewer policy instruments, so they have to rely more on international financial policies. Governments tend to have fewer options about their monetary policy and exchange rate policy. In open economies there is a higher transmission of international interest rates and prices to the domestic economy. Moreover, bank regulation and supervision by one government is more difficult when liabilities and prices are denominated in foreign currency and when the banking sector is part of an international banking system. Also, in the midst of contagious crises, governments tend to lack sufficient resources to stop a currency attack, and individual governments can do little to stop crises being originated in foreign countries. In these cases, international financial coordination can help individual governments achieve their goals. There are different policies in which there is scope for cooperation. A coordinated action among governments and the international financial institutions is necessary to overcome crises and contagion at both regional and global levels [1]. To minimize potential moral hazard, it would be necessary to involve the private sector so that private international investors share in the costs as a penalty for excessive risk taking.

One of the main challenges of financial globalization is to integrate all sectors and countries that don't participate in the globalization process. Financial globalization can bring about many positive benefits. But not all countries, sectors, or firms have access to global financial markets and services or can take advantage of the benefits induced by globalization. Among developing nations, only some countries, particularly middle-income countries, receive foreign capital. Within each country, investment is concentrated in certain sectors. Selected companies can obtain foreign funds. The lack of participation in the financial globalization process might put countries, sectors, and companies in disadvantageous positions. There is no easy solution on how to integrate them. So there is need of future research which could shed light on how can countries, sectors, and companies benefit from financial globalization and take advantage of the possibilities offered by financial globalization.

ПРОБЛЕМЫ И ПЕРСПЕКТИВЫ РАЗВИТИЯ СОТРУДНИЧЕСТВА МЕЖДУ СТРАНАМИ ЮГО-ВОСТОЧНОЙ ЕВРОПЫ В РАМКАХ ЧЕРНОМОРСКОГО ЭКОНОМИЧЕСКОГО СОТРУДНИЧЕСТВА И ГУАМ

The empirical statistics of the mentioned benefits and risks for the Commonwealth of Independent States (CIS) countries are obvious. These countries liberalized their financial sectors after breakup of USSR, since 1991, without having healthy macroeconomic and financial fundamentals, which are important and key factors for financial integration. And the consequence was the crisis in the midst of 1990s in these countries, connected with these factors. Beside that these countries had no policies and instruments for overcoming the crisis in that state of affairs. But after the crisis CIS countries began growing with faster tempo (Chart 1.), increases inflows and began the establishment of native financial systems connected in generally with the financial integration and by using international financial recourses.

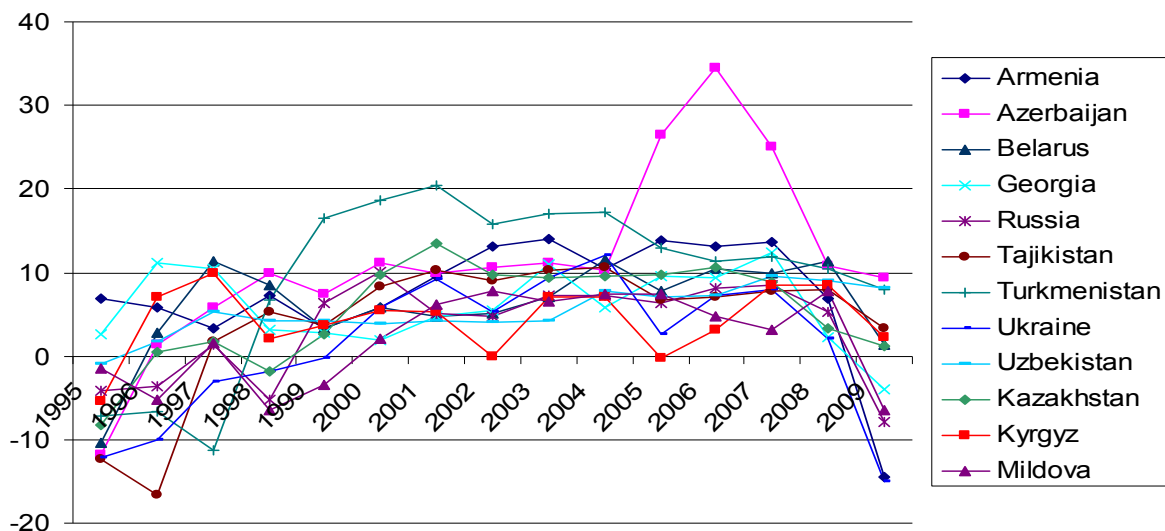


Chart 1. GDP growth (annual %) [4]

In Chart 1 is shown the annual growth of GDP in CIS countries in period of 1995-2009. As we see the annual growth of GDP is negative in the midst of 1990s, in the crisis years, but after that it shows positive and faster increase tempo. The biggest negative rate noticed also until 1995 (in Georgia- 45% in 1992, then in Armenia- 42% in 1992 and 30% in 1993, in Moldova- 31% in 1994, Tajikistan- 29% in 1992, Azerbaijan- 23% in 1993, Ukraine- 23% in 1994 and Kyrgyz Republic- 20% in 1994) [4]. The biggest negative rate was in Ukraine- 12.2% in 1995, in Tajikistan- 12.4% in 1995 and 16.7% in 1996, in Azerbaijan- 11.8% in 1995, in Turkmenistan- 11.3% in 1997. The recession in all these CIS countries is connected with banking system and currency crisis, which appeared after USSR breakup and financial system liberalization. After the crisis in CIS countries was noticed growth in fast tempos. The biggest growth was in Azerbaijan- 26.4% in 2005, 35% in 2006, 26% in 2007, then in Turkmenistan- 17% in 2003 and 2004, Kazakhstan- 13.5% in 2001. In Armenia was growth around 14% during 2003-2007, but at the same time in 2009 was recession in 14.4%, which is connected with global financial crisis in 2007-2009. In Ukraine also noticed recession in 15% in 2009 by the same reason. All these empirical data confirm the theory that liberalization of financial system may lead to crisis in the short run period but after that it ensures faster development tempo for financially integrated countries.

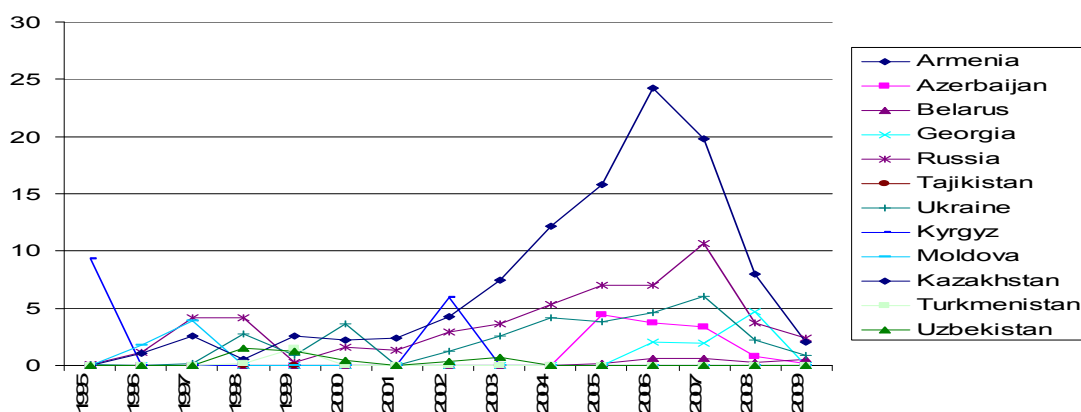


Chart 2. Financing via international capital markets (gross inflows, % of GDP) [4]

ПРОБЛЕМЫ И ПЕРСПЕКТИВЫ РАЗВИТИЯ СОТРУДНИЧЕСТВА МЕЖДУ СТРАНАМИ ЮГО-ВОСТОЧНОЙ ЕВРОПЫ В РАМКАХ ЧЕРНОМОРСКОГО ЭКОНОМИЧЕСКОГО СОТРУДНИЧЕСТВА И ГУАМ

Chart 2 shows gross capital inflows in CIS countries in the period of 1995-2009. We see that the inflows were rising until the global financial crisis which began in 2007. After it inflows began to fall. The biggest share of inflows in GDP was in Kazakhstan in 2006- 24%, then in Russia- around 11% in 2007. In Armenia the international capital inflows come to a very small share, only 0.03% of GDP. These data presents that though the countries are open to global financial markets but they are not enough and full integrated. And they have to do much work to establish well functioning financial institutes and participate in the world's financial operations more active.

In the first stage of financial integration process real interest rates in the CIS countries were very different and inconstant. It's explained by absence of domestic financial system too. Connected with currency and banking system crisis and by presence of many risks in CIS countries the real interest rates were negative (In Ukraine -91.7% in 1993, and in Belarus -87.8% in 1994, in Armenia it was -18.8% in 1995) [4]. Besides that, as we have mentioned and as we see in Chart 3 there are huge differences between real interest rates in CIS countries. But gradually it began converge in the last years (See Chart 3.). It connected also with financial integration processes, because as we know, it leads to risks diversification. This convergence process continues until global financial crisis in 2007. But after midst of 2008 the real interest rates began rising connected with developed countries and world economy recovery, which brings to more capital inflows.

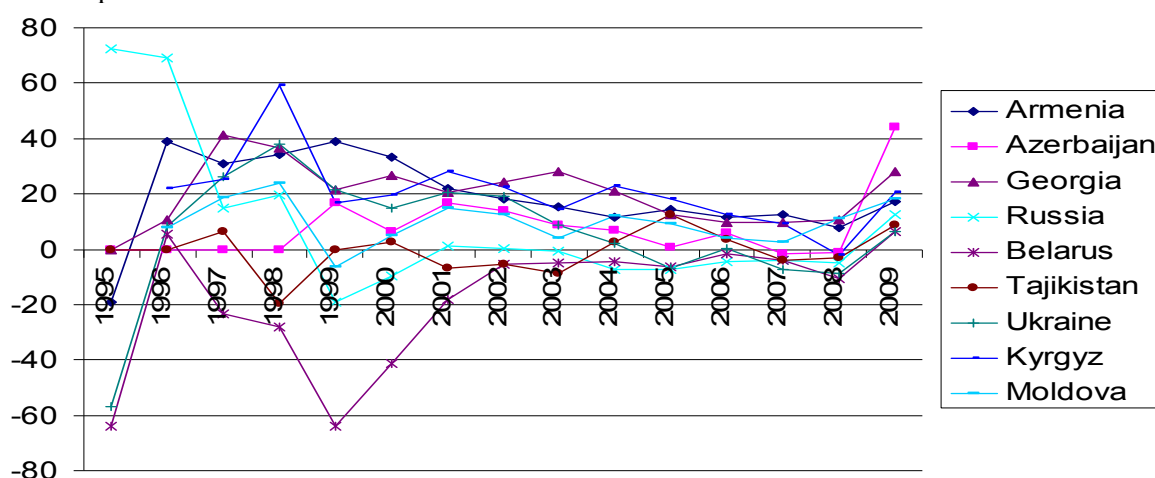


Chart 3. Real interest rate (%) [4]

The important factors for financial integration are also risk premium on lending and equity premium [5]. Almost in all CIS countries there were no data of equity premium, because they don't have well functioning and developed domestic equity markets. That's why we discuss only premium on lending and the risks related to them (data for risk premium on lending were available only for 6 CIS countries). Since 1995 the risk premium on lending was very different and volatile (till 1995 there was no lending in the mentioned countries, because they didn't have financial, especially banking systems) [4]. But in the last years it was getting straight until this process interrupted by global financial crisis.

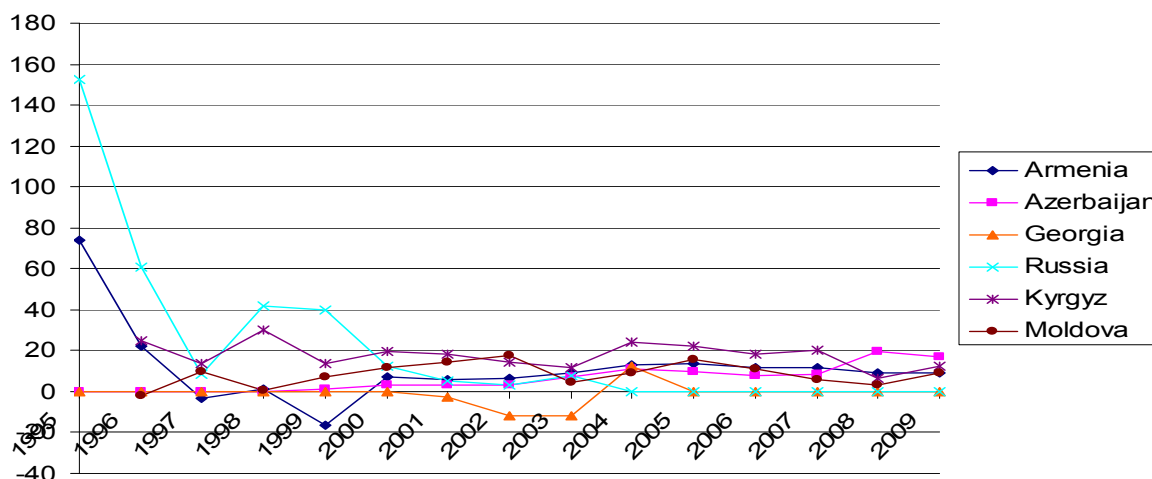


Chart 4. Risk premium on lending (prime rate minus Treasury bill rate, %) [4]

The highest risk premium on lending in 2009 was in Azerbaijan, then in Kyrgyz Republic with 12.5%. In Armenia the risk premium on lending was 9.3% in 2009, after world financial crisis. It is related with existing high interest rates on lending. The banks in Armenia are fixing high interest rates for minimizing their risks and for preventing additional crisis in the banking system.

Summarizing the theory we could say that financial integration leads to domestic financial system development but at the same time it poses risks by crisis and contagion. Bringing together the theory and empirical data for CIS countries, we could say, that it is very difficult to take advantage and gain from financial integration and globalization. It is more difficult, when you open your country and liberalize financial system and capital account having no financial system and financial infrastructures and without ensuring the minimum requirements.

We can say that though in the world the process of financial integration is going with fast tempo and almost all countries around the world are integrated, CIS countries are still remaining without well functioning financial markets and having minimum participation in international financial system. It's partly explained by the fact that they have no financial infrastructure and financial markets when they liberalized. So they began the establishment of domestic financial system from zero. But we could say that CIS countries have shown progressive movement in this direction and their financial systems began functioning better and effective. Though the global financial crisis slowed their progress we hope and wait for CIS countries' domestic financial markets final establishment and development by diversifying the arising risks and using all the benefits from financial globalization which will lead to full financial integration.

For Armenia all these facts are also true. Armenia liberalized domestic financial system since 1991 (after USSR breakup) without having the necessary infrastructure and minimum requirements for it. There were no financial markets, so the establishment of financial system was begun from zero using generally international financial resources. Armenia has shown progressive movement in this direction and now we have well functioning banking system and are doing everything for developing other financial markets and having effective and fully integrated financial system by taking all advantages of financial integration and globalization.

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SUMMARY

In this article is presented the benefits and risks of financial integration and globalization. The main benefit of financial integration is development of domestic financial system. At the same time financial integration poses risks by crisis and contagion. In the article is also analyzed the consequences of financial integration in CIS countries, where financial integration lead to as positive as well as negative results.

Keywords: financial integration, financial globalization, financial markets, risk, benefit.

РЕЗЮМЕ

В этой статье представлены преимущества и риски финансовой интеграции и глобализации. Главная польза финансовой интеграции - это развитие внутренней финансовой системы. Одновременно финансовая интеграция распространяет риски через кризисы и инфекции. В статье также исследованы последствия финансовой интеграции в странах СНГ, где финансовая интеграция привела как к позитивным, так и к негативным результатам.

Ключевые слова: финансовая интеграция, финансовая глобализация, финансовый рынок, риск, преимущество.

РЕЗЮМЕ

У цій статті представлені переваги та ризики фінансової інтеграції та глобалізації. Головна користь фінансової інтеграції - це розвиток внутрішньої фінансової системи. Одночасно фінансова інтеграція поширює ризики через кризи та інфекції. У статті також досліджені наслідки фінансової інтеграції в країнах СНД, де фінансова інтеграція призвела як до позитивних, так і до негативних результатів.

Ключові слова: фінансова інтеграція, фінансова глобалізація, фінансовий ринок, ризик, перевага.

FINANCIAL GLOBALIZATION, INTEGRATION AND EMERGING EUROPEAN ECONOMIES*

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1. Introduction. Financial globalization and integration are the part of overall globalization process that can be split into:

1. Noneconomic and
2. Economic interconnectedness between nations and countries all over the world.

1. Noneconomic globalization could be defined as a process of flows of ideas, information, know-how and cultural heritage in a world that is highly connected and integrated due to progress in telecommunication and means of transportation. This non-economic part of globalization especially flows of ideas matters for poverty reduction as well as for catch-up growth.

2. Economic (also called real) globalization is process of greater economic interdependence between countries that is reflected in the:

- a. increasing volume of cross-border trade in goods and services
- b. increasing flows of labor i.e. working force and
- c. increasing volume of financial flows (a process known as financial globalization).

Financial globalization and financial integration, although might sound similar, are not synonyms.

Financial globalization is a part of economic i.e. real globalization. Real globalization can be defined as a cross-border integration of markets for goods, services and factors of production. Financial globalization resulted not just in stronger co-movement of risk adjusted real asset returns across countries but also in:

1. Increase in FDI in financial industry
2. Increase in cross-border banking
3. Higher level of cross-border capital flows and
4. Higher stock of cross-border assets and liabilities.

Financial globalization is a process driven not just by governments but also but financial innovations that are spreading all over the globe.

Financial integration is, on the other hand, process of increasing interlinkagness between financial markets and institutions which move towards a fully integrated financial market.

The ideal level of fully financial integrated market implies:

1. The low of one price (risk-adjusted real returns on assets with the same maturity and the same other characteristics should be equal)
2. A single set of rules for economic agents irrespectively of location
3. Equal access to financial assets and services no matter how financially strong the agents that are at the market are.

The process of financial globalization has the influence for almost all economies in contemporary world. Some of them are actively and deeply involved in export or import of trade and financial capital. The others are just receivers of financial aid and serves as a base for extraction of row materials, minerals and oil. What is also important is the fact that financial globalization poses significant challenges for prudential and monetary policies.

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