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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1. For prudential policy main problem is the internationalization of banking through:

a. direct presence in host countries through branches and/of subsidiaries (more prevalent in resent years in the USA and Latin America)

b. Cross-border lending that dominates in emerging Europe and the euro area.

Problem concerning financial globalization through bank internationalization for prudential authorities emerge from the fact that:

a. international banks are more complex and therefore requires more sophisticated supervisory tools

b. in the case of need for emergency liquidity in the local currency of host country, central bank of internationally involved bank can not (or hardly can) help. There is no international institution for global or regional supervision which means that crisis management is hard to be implemented especially when information gap exists.

2. Financial globalization also affects monetary policy especially in the small open economies that operate open capital accounts and flexible exchange rates (like Serbia does).

Small open economies are unable to affect global financial conditions. In the monetary policy area this means that monetary policy can not be able to influence domestic real interest rates. As, according to theory, full financial globalization should result in real returns of financial assets with similar maturity and risk being equalized across countries, the ability of small, open economy to affect domestic demand through interest rate channel will disappear. Exchange rate channel, in case of flexible exchange rate regime, then, can serve to monetary policy as a policy tool for keeping the prices stable through inflation targeting.

For emerging European countries, that are small to medium size, the best option when interest rate channel is weakened might be to change its monetary policy framework by entering monetary union. Most of the former transition European countries have become a part of the EU, some of them also a part of EMU.

As both real and financial globalization progress over the time, the relative attractiveness of entering the EU increases. Common currency becomes a kind of a shield for small emerging economies that can not influence global real and financial conditions through monetary policy channel. For Western Balkan countries, that are or (about to be) candidates for entering the EU, this is an additional reason to fulfill all necessary conditions for integration into EMU.

This paper will, therefore, be focused on the influence of financial globalization and integration to capital flows, growth and fiscal adjustment in emerging Europe and emerging markets as a whole.

2. Financial globalization and capital rising

Economic globalization has been the dominant form of integration and one of the main drivers of growth in most of the countries for years. Nevertheless, in the recent years globalization in finance, flows of information and technology has become really fast. International financial follows reached 8, 6% of aggregate GDP of emerging and developing countries in 2007. Those international capital flows successfully supplement the shortage of domestic capital and even, in some cases, help in promoting domestic investments. Capital flows towards emerging and developing countries led to a fact that during the 2000-2007 period rise in export in emerging and developing countries contributed about two thirds in growth of total world trade and about 60% of growth in total output.

Emerging Europe experienced a fast expansion of financial sector during the transition process. Most of the European transition countries became net capital importers. In many countries lending rates were pretty high and unsustainable. Capital rising in form of cross-border credit created a credit-driven growth model that has become prevailing pattern of emerging Europe economic development.

This growth model led to a chronic dependence of European emerging economies on being able to borrow on the international market in order to finance fiscal deficits, domestic demand and current account deficits. Dependence on foreign capital inflows have raised the level of risk for:

1. Exchange rate instability and
2. Banking sector illiquidity.

Generally speaking, capital inflows towards transition European countries can appear in form of:

1. Debt flows
2. Portfolio equity instruments
3. Foreign direct investments
4. Remittances and
5. International aid either from countries or from international financial institutions and organizations.

1. Three main types of international debt flows to the emerging countries are:

a. Bilateral bank lending

b. Syndicated loans (lending by group of banks in order to share credit risk)

c. Bond issues (in the Eurobond market or domestic financial market) purchased by foreigners.

Lending from international banks was the main part of capital inflows in transition countries. The reason for that is that bank lending to emerging Europe was less risk sensitive than bond issuing. This is easy to understand if one takes into account that according to Transition Report 2009 about 45% of total bank assets in the region are foreign owned. One half of above mentioned 45% are controlled by seven largest international banking groups. To put it different, cross-lending from foreign banks to transition countries is nothing else but international bank lending to their subsidiaries in host countries.

As for bond issuing, we have to point out that there is a difference between government and private sector issues. After 2007 (at the beginning of the latest global financial crisis) the issuance of government bonds has increased (partially in order to finance fiscal deficit) while private sector bond issuance declined sharply.

From 1990 CEE countries have been the recipients of substantial net capital flows. Net capital inflows towards emerging European countries were one of the main reasons for high growth rates in several CEE countries during 1990s.

The accumulation of external liabilities really can accelerate the growth convergence process and allow fast growing emerging country to exploit investment opportunities while raising its consumption level in advance of increases in its income. For countries that are making substantial resource to foreign capital two important issues arise:

1. As principal repayments increases over time, borrowing countries need to ensure that trade surpluses allow the external position to stabilize or decline relative to the size of the economy.

The size of the needed trade surpluses depends on the:

a. Outstanding stocks of accumulated liabilities and the rate of aggregate output growth

b. Expected rate of return on a country's foreign assets and liabilities which will be heavily influenced by the composition of its international balance sheet.

2. Very important issue for an indebted economy is an assessment of its degree of vulnerability to financial shocks.

For instance, the international financial crises of the 1990s highlighted the potential volatility involved in a heavy reliance on certain types of external finance especially short-term currency debt. For this reason it is also important to understand the risk profile of a country's international financial liabilities.

Net capital flows towards some of the emerging countries during late 1970s and early 1990s (the case of Latin America) were really high. For CEEC direct investment flows were especially important in financing external current account imbalances during 1990s. Equity-type flows allow the borrowing country to share risk with foreign investors more effectively than foreign currency debt because the profitability of FDI is likely to be linked to the performance of domestic economy.

The rate of return on external liabilities can actually be higher that the rate of return on debt to the extent that direct investors require an equity premium. Geographic factors have very high impact on capital flows towards CEEC with Western Europe countries being the dominant external investors in this region and the US only significant for portfolio equity flows in some of the countries.

For emerging European countries surpluses on their balance of goods, services and transfers is needed to stabilize their external net position. Bulgaria, Romania and Baltic countries that had large trade deficits in 2006 had to run more exports. Faster growth, low spreads on external debt, higher EU transfers and higher labor remittances can all contribute to the needed external adjustment.

2.1 Trends in the current account and external position in emerging Europe

According to several recent studies at the end of 1994 Bulgaria, Hungary and Poland had relatively large net external liabilities primarily in the form of external debt. The rest of the European emerging countries had balanced net external position and therefore stronger than the average rating. After 2004 substantial net capital inflows were expected towards emerging market countries in order to take advantage of the high rate of return on capital and catch-up opportunities. That is exactly what happened after 1994.

During the 1995-2004 period 11 Central and Eastern European countries ran on average current account deficits of over 5, 5% of their GDP with a peak average of 8, and 4% of GDP in Estonia. After 2004 as a result of prolonged episode of current account deficit the picture of net external liabilities in CEEC has changed. At one extreme Estonia and Hungary stand out with external liabilities close to the size of the country's GDP. Slovenia which was the country with the highest GDP in the group had much smaller net external position. Comparing with CEEC, Portugal and Greece in the same period also experienced worsening of their net external position. Current account deficits in CEEC were serviced successfully because of the greater degree of financial integration both inside the Europe and at the global level.

2.2. Capital flows and financial integration

After 1994 the large current account deficits in CEEC were the result of substantial capital inflows (of about 10% of CEEC group's GDP per annum with peaks of 16% of GDP in Estonia and Latvia) and capital outflows (over 4, 5% of CEEC's GDP per annum with peaks of 8% of GDP in Estonia and Latvia).

Financial integration can be measured by sum of external assets and liabilities /GDP ratio. If we take into consideration this measure, the overall degree of financial integration of the region has almost doubled during the past decade increasing from an average of 80% of GDP in 1994 to over 160% of GDP in 2004. It amounted 250% of GDP in Estonia and over 180% of GDP in Croatia, Hungary and Latvia.

Higher level of external assets and liabilities as a part of GDP was in the line with global trend towards cross-border asset trade but also a result of capital account liberalization in the CEEC and reforms connected with financial deepening. Nevertheless, the level of financial integration in CEEC remains well below the one in the old EU members group but higher than in the rest of emerging and developing countries.

2.3 Portfolio investments in emerging Europe

In the early stages of transition from plan to market most of the external liabilities in CEEC were in the form of external debt. Total equity liabilities (including FDI and portfolio equity) exceeded 10% of GDP at the end of 1994 only in Hungary (17%), Czech Republic and Estonia (in both countries around 13%).For CEEC region the average equity presence in total liabilities were about 10%.

During 1990s this portion has increased very rapidly owing to large inflows of FDI. In 2006 it stand at close to 50% of total external liabilities which is well above the average in the 15 countries that are old EU members and about the same as in other emerging and developing countries.

Equity liabilities in CEE almost entirely took the form of FDI while portfolio equity liabilities represented a much larger share of total liabilities in the EU 15 than in CEEE group. FDI inflows during 2002-2004 were very high in Estonia but much smaller in Czech Republic, Hungary and Slovak Republic. Trend of high FDI inflows probably can not be continued because in most of the CEEC foreign ownership compose substantial fraction of the domestic capital stock.

At the end of 2004 the stock of FDI relative to GDP was about 90% in Estonia and over 60% in Hungary. Also, it is important to point out that in CEEC foreign exchange reserves and debt assets account for the main part of CEEC's holdings. In old EU member countries equity holdings play an increasingly important role. In the rest of the emerging and developing countries the pattern is similar to those of the CEEC with the equity component plays a more important role.

In 2004 all CEEC had negative net equity position with Estonia having equity liabilities close to 105% of GDP and Slovenia 15% of its GDP. Nine of eleven CEEC had negative debt position (Czech and Slovak Republic were exceptions). FDI had the main part of the CEEC'S external liabilities which was important because:

1. When FDI are in question the return for foreign investors depends on the effectiveness of the investment and that CEEC are able to run larger current account deficit than could otherwise being possible.

2. FDI serves as a channel for technology transfer. Therefore large portion of FDI inflows ca raise productivity and income growth in the host country.

Portfolio equity inflows have been relatively small during the 1995-2004 period. The reason might be that CEEC are not good in terms of corporate governance. Therefore, foreign investors can be faced with higher risk for profits (because of insiders or political intervention). In the future, equity inflows as a source of external investment could play a more important role if CEEC undertake all necessary reforms concerning corporate governance.

On the asset side of the international balance sheet the rising income levels and greater trade openness in the CEEC might be associated with greater levels of external FDI and portfolio equity investments that are currently observed.

Table 1

Composition of the CEEC's net external position in 2004 (in percent of GDP)

Country	Net foreign assets	Debt assets (including reserves)	Equity assets	Debt liabilities	Equity liabilities	Growth rate
Bulgaria	-47,8	62,9	-0,1	70,0	40,5	5,5
Czech Republic	-34,6	58,0	5,9	37,2	61,4	3,6
Slovak Republic	-37,5	54,2	5,3	50,6	46,5	4,9
Estonia	-99,7	59,6	16,3	70,7	104,9	5,8
Latvia	-55,0	65,4	2,2	88,0	34,6	6,2
Hungary	-96,9	35,4	6,7	64,9	74,0	3,9

Lithuania	-38,9	31,0	2,1	42,4	29,6	6,0
Croatia	-64,5	54,2	7,5	84,8	41,4	4,4
Slovenia	-18,0	55,1	11,3	58,9	25,5	3,7
Poland	-53,3	30,1	1,5	44,2	40,7	3,8
Romania	-34,8	30,0	0,4	37,4	27,9	5,0

Sources: CPIS 2003 Data, World Economic Outlook 2005

Main characteristics of FDI in CEEC are:

1. Euro area is the most important source of direct investments for CEEC
2. Among EMU countries Austria and Germany are especially significant
3. Intra-CEEC direct investments are worth nothing (but they are somewhat important for Croatia. Latvia and Lithuania)

Composition of portfolio equity liabilities in CEEC is as follows:

1. The USA and the UK are important portfolio equity investors in the major CEE countries.
2; Euro area is the most important for CEEC
3. Czech Republic is the largest portfolio investor in Slovak Republic.

Table 2.

Sources of FDI in CEEC in 2002 in %, by country

Country	EMU	UK	US	Denmark	Sweden	Switzerland	CEEC
Bulgaria	87,0	5,3	5,7	1,0	n/a	n/a	1,0
Croatia	81,4	n/a	1,8	1,1	n/a	2,7	13,0
Czech Republic	82,3	5,3	4,3	1,0	1,9	4,4	0,9
Estonia	47,4	O,7	1,5	3,4	46,1	n/a	0,8
Hungary	79,2	7,3	8,1	0,7	2,3	1,5	1,0
Latvia	25,7	1,1	-0,6	15,7	44,6	n/a	13,5
Lithuania	23,5	0,5	2,8	34,7	24,5	n/a	14,0
Poland	73,1	7,4	9,3	2,9	3,8	3,1	0,3
Romania	89,4	1,3	7,7	0,4	n/a	n/a	1,1
Slovakia	83,5	n/a	8,6	0,7	n/a	1,4	5,8
Slovenia	95,5	n/a	1,6	0,0	n/a	n/a	3,0

Source: Eurostat data, 2002

Main characteristics of the CEEC's liabilities to the banks are:

1. The euro area and the UK are the dominant sources of external bank finance for most of the CEE economies
2. The USA and other non-European countries are taking small shore in external financing through banks in CEEC
3. Austria and Germany are the most important investors in this category as well as Finland and Sweden for Baltic and Italy for Bulgaria.

Portfolio debt structure in CEEC is as follows:

1. The euro area is the most important external holder of portfolio debt securities issued by the CEE countries
2. Japan, the UK and the USA are important for individual countries.

Generally speaking, as a conclusion it could be said that:

1. Geographical proximity is an important driver of direct and bank investments in CEE while
2. Relative stability of the currencies of the CEEC against euro can explain the predominance of the euro area as a source of portfolio debt
3. The USA takes a prominent role as an external investor in the CEEC only in terms of portfolio equity investment
4. In the future it would be interesting and worth to investigate how the EU membership (or the prospect to enter EU) and the entry into EMU later on will affect allocation decisions of the investors.

2.4. Currency denomination of the international bonds issued by CEEC

Most international bonds are denominated in euro. Dollar is the second most important currency for bond issuing. Yen and sterling have minor presence on the international bond currency structure and only in a few countries.

Large presence of euro denominated bonds in foreign currency debt of CEEC implies that the bilateral exchange rates of the CEEC vis-à-vis the euro are an important factor in determining the stability and dynamics of their external position.

Table 3.

Sources of portfolio equity investments in CEEC in 2003 in %, by country

Country	EMU	UK	USA	Japan	CEEC
Bulgaria	27,5	14,1	19,8	n/a	6,4
Czech Republic	43,2	8,0	33,2	0,2	1,9,
Slovak Republic	35,4	n/a	7,2	n/a	52,6
Estonia	60,2	13,5	14,1	n/a	0,0
Latvia	35,8	3,9	n/a	0,2	5,4
Hungary	45,5	9,2	33,6	n/a	5,5
Lithuania	51,5	n/a	2,0	0,1	9,1
Croatia	38,8	11,9	36,7	n/a	0,9
Slovenia	77,8	9,1	4,8	0,1	0,0
Poland	54,3	n/a	28,1	0,1	0,8
Romania	46,3	n/a	14,6	n/a	1,4

Source: CPIS data and the IMF World Economic Outlook 2004

The structure of total debt liabilities of CEEC's is as follows:

1. International bonds
2. Foreign owned debt securities issued domestically
3. Loans
4. Deposits and
5. Trade credits.

Large current account deficits in CEEC during 1995-2004 as a result of increasing international financial integration make easier convergence of standard of leaving and the aggregate output between developed and emerging Europe countries. In CEEC large portion of capital inflows came in the form of FDI which provide attractive risk-sharing and technological benefits.

The prospects for deeper integration for those CEEC that have already joined EU could bring additional benefits through:

1. Lower perceived risk
2. Stronger demand for exports
3. Higher labor remittances from workers moving to richer countries.

3. Financial integration and growth

Theoretical and empirical analyses suggest that deeper and more integrated financial markets are beneficial in order to receive net capital inflows. CEEC were able to run large current account deficits over the last decade and so owing to increasing financial integration. This process led to rapid convergence with the EU members both in living standard and in aggregate output.

Understanding financial integration is as important as understanding financial development.

Financial development in European emerging markets comprises two crucial concepts:

1. Financial liberalization and
2. Financial deepening.

Financial liberalization can be defined as a process of lowering degree of government involvement in financial markets in order to build more market based financial system. Financial deepening refers to increases in market capitalization and market liquidity i.e. in volumes of financial markets. Both components of financial development can be either independent or simultaneous.

The importance of financial liberalization for emerging European countries is that this process as a result has more market based financial system. More developed financial systems that are result of financial development and financial reforms may attract higher financial flows i.e. higher net capital inflows. That means that countries with higher net capital inflows can run bigger current account deficits. Financial development is important both for domestic and foreign investors. The later are main source of gross and net cross-border capital inflows.

As for financial integration, the process of higher interconnectedness between local financial markets and systems helps us to evaluate the benefits of the recent EU enlargement. There are recent reports that new EU accession countries were able to receive substantial net financial inflows thanks to the enlargement process.

The degree of financial integration also matters for the decision of new EU members to adopt euro. It is well-known that common currency can lead to higher degree of financial integration. Also financial markets should be integrated in order to bring monetary policy to function properly. Integrated financial markets are also more capable to absorb external shocks.

3.1. Forms and measures of financial integration

According to the IMF World Economic Outlook 2008 financial liberalization is of a great importance for CEEC countries because this process leads to a greater presence of foreign banks in the CEEC region. Increasing financial integration facilitated convergence in income levels between new member states and the old EU countries through capital inflows from EU 15 to the rest of the emerging Europe. New EU member states adopted EU institutional framework that reduce barriers for international capital flows towards them. These capital inflows boosted growth in emerging Europe though growth model was credit-based and therefore non-sustainable in the long–run.

Financial integration for emerging European countries can be measured by:

1. Changes in capital costs
2. Changes in access to developed EU financial markets.

1. Changes in the costs of capital are measured by:

a. Yields spreads and
b. Interest rates in candidate, EU accession and old EU countries.

According to theory and some empirical studies integration of financial markets should reduce difference in interest rates and yields across the EU area. To point out again, the measure of financial integration is whether the low of one price holds or not. In a perfectly integrated market there is no difference in asset prices with the same maturity and characteristics across the market.

European emerging countries are in comparison to developed European countries capital poor. Financial integration should lead towards higher capital supply that should reduce capital rise growth rates in accession countries compared to the old EU members.

2. Second measure of financial integration between emerging Europe and the old EU member states is the access of individuals and enterprises from emerging Europe to the more developed financial markets within EU in form of:

a. corporate euro-bond issues
b. sovereign euro-bond issues
c. equity cross-listings and
d. changes in the efficiency of banking sector through increased competition and increased efficiency as a result.

Financial integration can be analyzed in all segments of financial market especially in:

1. Bond market (both corporate and sovereign)
2. Loan market and
3. Equity market.

1. As for money market, financial integration is possible only if common monetary policy exists i.e. within EMU. When central banks in emerging Europe issue local currency, money market interest rates convergence is not possible. For eight EU accession countries that entered the EU (Estonia, Latvia, Lithuania, Slovenia, Hungary, Poland and Czech Republic) the correlation between their short-term interest rates and short-term interest rates in the old EU was negative (except for Poland and Czech Republic). Moreover, the correlation between accession countries' short-term interest rates is pretty low. This means that monetary policies between accession countries as well as between accession countries and the EU are not synchronized. Therefore, the absence of independent monetary policy in the future may be relatively costly for emerging countries.

2. Government bonds

In the highly integrated financial market the difference in the rate of return between bonds issued in the same currency (yield spread) is only credit risk premium. That is, within EMU, difference between domestic bonds issued for example in Germany and foreign bonds (issued for example in France) yield is credit risk premium that consists of:

1. Premium for default risk and
2. Liquidity risk premium.

When bonds are issued in different currencies outside the EMU the nominal yield spread on domestic bonds relative to foreign bonds consists of:

1. Credit risk
2. Exchange rate risk and

3. The expected possible depreciation of the local currency in which the bond is denominated.

According to some empirical studies yields on local currency government bond in eight emerging European countries that entered the EU (Slovak Republic, Czech Republic, Slovenia, Hungary, Poland, Estonia, Lithuania and Latvia) in a pre-accession period converged towards those in the developed EU countries. The convergence was not, according to the study, the result of lower credit risk, lower exchange rate volatility and lower rate of currency depreciation but rather the result of financial integration.

3. Corporate bonds

In pre-accession period firms from eight emerging Europe countries have issued international bonds denominated in euro and dollar. In highly integrated corporate bond market the yields on corporate bonds with same maturity in accession countries and old EU members should be equal. The higher the level of financial integration in accession countries the smaller the differences concerning yield spreads.

The comparison of corporate bonds with similar characteristics in emerging Europe and developed countries is not easy one because of different bond credit rating. The difference (spread) between yields on the ECCI index[1] (that serves as a base for comparison) and, for example, B+ rated bond is bigger than between ECCI index and corporate bond that have A rating.

Generally speaking, yields on corporate bonds in accession countries are less then yields on ECCI index with the same credit rating. Also, accession countries in pre-accession period were not financially integrated measured by the global value of corporate bonds issuance within them.

4. Loan market

In market for bank loans, financial integration means that interest rates on identical financial bank products should be equal. Testing level of financial synchronism in this segment of financial market is extremely difficult because of heterogeneity of banking products. Moreover, banks give corporate loans with different interest rates partially because of different characteristics of the enterprise asking for credit. Therefore, only average interest rate can be used as a measure of financial integration in this segment. Even average measure can not be a precise one. In order to measure degree of financial integration of accession countries a set of margins of different banking products can be used. The more integrated accession country is, the higher the convergence of the margins.

Interest rate margins as a measure of financial integration in the loan market consist of:

1. Difference between lending and deposit interest rates

2. Margins for overnight deposit rates that are difference between the overnight money market interest rate and the relevant overnight deposit interest rate (in case of money market)

3. Margin for short-term loans (as difference between the interest rate on short-term loan and the overnight money market interest rate) and

3. Margins for medium and long-term loans (as a difference between the interest rate in question and the yield on a 10-year government bond).

As for difference between lending and deposit rates calculations show that there is a convergence between the margins in accession and the euro area countries. The margin in developed EU countries is constant and is about 3%. In accession countries margin dropped from 11% in 1999 to less than 5% in 2003.

Narrowing of the margins in accession emerging countries is the result both of:

1. Higher financial integration between loan market in the EU and accession countries

2. Increased competition among domestic banks.

As for level of integration in other different segments of banking market studies show that margins were higher in accession countries than in euro area in 2004. The largest difference between margins is for consumption loans for households[2]. The reason is that market for consumption loans for households is far less integrated and competitive than market for corporate loans. High margins in this financial area motivated foreign banks to enter emerging market's financial sector and stay there till now.

The margins for loans for corporations in 2004 were between 1, 5% and 2, 5% in accession countries and 0, 8% and 2, 0% in the euro area. For large corporations margins are often lower than for small corporate loans.

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[1] ECCI Index is MSCI Euro Credit Corporate Index that serves as a measure of the yield on euro-denominated corporate bonds in the developed EU countries. This index consists of corporate bonds mostly issued by old EU members and that is why representing a solid measure of yields on corporate bonds in the old EU member states.

[2] In 2004 banks in developed EU countries charged in average 2,7% over the yield on 10-year government bond for consumption loans, while in accession countries in 2004 margin was 10-year government yield plus 12% or even more.

Financial integration in banking sector is also represented by majority ownership of foreign bank in emerging markets financial sector. According to one of the studies in 2003 59% out of 152 banks in eight above mentioned accession countries were majority foreign owned.[1]

5. Equity market

Generally speaking an equity market can be either

1. Segmented or
2. Integrated.

As we already know future expected dividends in order to obtain present value are discounted by discount factor that is related to stock's market systematic risk. In integrated stock market systematic risk is measured by the co-movement of the stock returns with the returns on the overall market portfolio. In segmented market systematic risk is measured by the co-movement of the stock returns with the local market portfolio.

As for stock prices, in accession and old EU countries high level of financial integration should mean that risk falls and prices rise because individual stock in EU accession country are less risky to a global than local investor.

In eight EU accession countries stock prices measured by stock indexes increased a lot after the last quarter of 2001. More precisely, when in November 2001 the European Union Commission released the timing and the list of countries for EU enlargement average return in accession countries was over 90% (in 2001-2004 period) while in the global market (measured by world market index) average return for the same period was only 8%.

The explanation for above mentioned data is again financial integration. In years prior to enlargement and after enlargement foreign investors began to include stocks from emerging Europe into their portfolios. That leads towards higher stock prices. Higher prices were, of course, partially the result of smaller risk for stocks from emerging Europe due to financial integration. Third part of explanation for higher stock prices was higher expected return after obtaining the EU membership.

3.2. Relationship between financial integration and growth

Process of economic and financial integration between emerging European countries and the EU or, more precisely, between new member states[2] and old EU countries started well before those countries entered EU. Economic and especially financial integration between emerging and developed Europe resulted in rapid economic growth in the former group of the countries. Growth rates were well above those expected on the basis of economic fundamentals and transformation recession in transition countries during the 1990s.

Although increased financial integration was beneficial for new member states it made emerging Europe more vulnerable to transmissions of economic and financial shocks. The transmission of shocks (that was again proved during the latest global financial crisis) went mainly throughout highly integrated new member states banking system. Differences among the new member states again stress the need for use of domestic policy tools such as consumer protection, financial education and sound prudential polices.

The emerging economies of CEE experienced successful period of reforms that has resulted in higher growth rates, higher standard of living, higher education quality and life expectancy. Better supply of financial and non-financial goods and services that was the result of both trade and capital flows liberalization get closer emerging markets to advanced ones.

The foreign capital inflows from developed Europe brought both know-how and organizational support from foreign firms with multiplied long-run effects. Access to west European markets resulted in faster export growth rates. The increased financial integration facilitated cross-border finance as well as cross-border capital flows in the form of FDI and portfolio investment. All those things decrease sharply consumption volatility in CEEC and introduce consumption-led growth model in majority of (former) European transition countries.

Rapid credit growth was therefore in new member states countries introduced together with financial integration. Private sector credit to GDP ratio in 2003-2007 period for example was well beyond the average in Baltic countries. In the rest of the emerging Europe it was mainly in the line with their level of financial development.

After 1990s GDP growth rates have become higher in all of the emerging European markets. Only GDP rates in emerging Asia were higher than those in emerging Europe. Financial and economic integration

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[1] Only in Slovenia and Latvia foreign owned banks in 2004 owned less than 50% out of total banks.

[2] In May 2004 Czech Republic, Estonia, Latvia, Lithuania, Poland, Hungary, Slovakia and Slovenia joined the EU (so-called 8 CEEC).

were the reason that allow new member states to grow faster than economies in other word regions with similar income level.

Also, economies with lower starting per-capita GDP have tended to grow faster. A comparison of the GDP growth rates in Emerging Europe shows high GDP growth rates in the new member states in pre-accession and in post-accession period (for those countries that are already members of the EMU). Only Estonia and Hungary showed smaller GDP growth rates in 2004-2008 period in comparison to 2000-2003 period.

This rapid economic growth led to an increasing share of new member states in the word's economic output from about 1, 5% at the beginning of 1990s to about 2, and 1% in 2008. But, fast economic and financial growth has brought together large imbalances in several new member stats economies. The question about sustainability of huge GDP growth rates and consumption-led growth model was starting to rise. Expectations of fast convergence between EU 15 and new member states generated large capital inflows toward emerging Europe in order to obtain high returns. Capital inflows toward emerging Europe caused high level of external debt in some of the countries within the group. Current account deficits in several new member countries also became too large in comparison to the rest of the world.

Even before the beginning of global financial crisis large capital inflows implied vulnerabilities. Convergence towards EMU in new member states caused rapid credit growth as well as domestic demand growth. This led to appreciation of real exchange rates and inflationary pressures. Credit expansion raised question of possible overheating of the economy, external imbalances, etc. In the presence of above mentioned economic conditions the latest 2007-2009 global financial crisis spilled over emerging Europe countries.

4. Financial globalization and fiscal performance

Financial globalization became fast-moving process since 1990s owing to increase of net capital inflows towards emerging markets. Over the last 25 years global financial integration and increase in capital inflows were associated with increased volatility and higher risk. Changes in the risk perceptions by investors are integral part of financial market operation and are hardly to be changed. Emerging market assets are being identified as a separate asset class and institutional investors are beginning to include them systematically into their portfolios.

The deepening of financial globalization has improved the access of all emerging markets towards global capital market. This led to growth of nominal public external debt in emerging markets during 1990s and especially after 2000. The favorable global financial environment has contributed substantially to the fiscal consolidation in many emerging markets after 2000.

In emerging Europe fiscal deficit have risen over 2002-2005 period (fiscal deficit in emerging Europe in 2005 reached 4, 9% of GDP which is 0, 8% higher than in 2001). This suggest that in emerging Europe as well as in the rest of the emerging markets fiscal saving that was the result of favorable global conditions during 2002-2005 was used for expenditures instead of reduction of fiscal deficit.

Emerging markets experienced fiscal risk whenever global interest rates rise and yield spreads expand. Namely, historical experience shows that spreads of emerging market interest rates in developed countries occurs. That is because rising interest rates contribute to a slowing of global economic activity and demand for emerging market exports.

Higher global interest rates affect public finances of emerging markets through two channels:

1. By increasing interest rates on new debt because of higher base rates
2. By increasing the cost of service for public debt with variable interest rate.

The fiscal impact on first channel is stronger because when interest rates rise, old debt taken under lower interest rates is being replaced with new public debt with less favorable (higher) interest rates.

Table 4 shows negative fiscal impact of future higher interest rates on emerging Europe fiscal performance. The impact of a change in the US dollar exchange rate of emerging Europe is much less significant but exists.[1] Simulated impact of a 10% or 20% appreciation or depreciation of the US dollar against emerging market currencies also exists. The estimated fiscal impact (positive or negative) of a 10% exchange rate change in emerging Europe would be in order of 0,10% in 2006 and 0,08% in 2007 of emerging Europe group's GDP. The impact of 20% change in the US dollar exchange rate is twice as large.

[1] All changes and rises and falls of variables inside the table are simulations.

Table 4.

Estimated Fiscal Impact of Changes in Interest Rates and the US dollar, 2006-2007

Policy measure	Emerging Europe	
	2006	2007
Global interest rates rise by:		
200 basis points	0,30	0,35
300 basis points	0,45	0,52
US $ appreciation/depreciation by:		
10%	0,10	0,08
20%	0,20	0,16

Sources: Global Development Finance, IMF Country Reports, WEO

Above mentioned facts mean that there is a substantial risk for fiscal performance in emerging markets and emerging Europe that stems from worsening of global financial environment. If less favorable global financial environment goes together with a slowing pace of global GDP growth and lower commodity prices the fiscal risk is even higher.

The conclusion is that emerging European countries together with the rest of the emerging world have to consolidate their fiscal position as well as to introduce (or continue with) fiscal reforms in order to maintain fiscal stability even in the case of deterioration of global financial conditions. The latest global financial crisis has shown that financial globalization contributed to spread of the crisis all over the globe.

Fiscal reforms in emerging Europe can and really contribute to improved financial and fiscal conditions. Connected with fiscal reforms is debt management. Debt management can be defined as a set of policy measures in order to obtain improved structure of state obligations in form of:

1. Longer maturity of state debt
2. Broadening investor base
3. Payment before maturity for debts that are taken under less favorable than present financial conditions and
4. Deepening local bond market (by, for example, the introductions of electronic trading platforms for direct trading of treasury bonds by individuals).

Fiscal institutions have also large impact on fiscal performance. Investors often pay an attention to the quality of fiscal institutions. Improved fiscal institutions are often connected with better financial conditions. Potential fiscal savings in interest and yield spreads are worth the effort for improvement of fiscal institutions in emerging markets.

The proof that quality of fiscal institutions in emerging markets matters is index of fiscal transparency that can serve as a measure of the quality of fiscal institutions.

Index of fiscal transparency covers about 20 desirable institutional fiscal features such as:

1. The quality of budget coverage
2. The prevalence of quasi-fiscal activities
3. The reporting of contagious-liabilities etc.

The index takes values between zero and one. Introduction of connection between global financial conditions and fiscal transparency shows that clear correlation exists between fiscal transparency and sovereign ratings and yield spreads. The correlation is stronger between fiscal transparency and sovereign rating but also exists between fiscal transparency and spreads. Fiscal transparency is also highly correlated with per capita income which is often the most important empirical determinant of ratings. According to Hameed (2005)[1] an improvement in fiscal transparency index by 0, 1 points improves the rating of sovereign bonds of country in question by 0, 82 notches.[2] Fiscal transparency index also shows that institutional fiscal reforms result in higher investor confidence. If state performs successfully two out of 20 above mentioned good fiscal transparency practices fiscal transparency index will be raised by 0,1 points. This, in turn, rises the expected bond rating of the country by 0, 82 notches. According to 2005 data, a one-notch rating upgrade should lower yield spread by about 40 basis points. This means that if country for example has median public expenditure ratio (in comparison to the sample of 40 emerging countries), of 25% of its GDP in 2005, the expected fiscal savings from improved rating by one notch will be about 0, 1% of GDP (25% of GDP times 40 basis points).

[1] Hameed Farhan, (2005), "Fiscal Transparency and Economic Outcomes", IMF Working Paper 05/225, Washington., DC

[2] Actual notch change is for example from BB rating to BB+ if we use S&P scale.

As for yield spreads, positive correlation between high fiscal transparency and lower spreads stay robust even when two important control variables i.e. per capita income and rate of economic growth are included. Again, index of fiscal transparency goes from zero to one and 20 fiscal transparency practices may be taken into consideration. If we again take 2005 year as a base than adding two additional positive fiscal transparency practices will reduce spreads in country in question by approximately 40 basis points (the result about the same as for bond ratings). Although those results are significant statistically and economically one have to bear in mind that lots of emerging countries have not international bonds outstanding. Kazakhstan, Latvia, Slovenia, Estonia and Lithuania have both sovereign rating and international bonds outstanding.

The conclusion regarding this question might be that there is positive correlation between an improvement in the quality of fiscal institutions and higher investor confidence as well as positive influence of the improvement in fiscal transparency and more favorable financial conditions for emerging market countries. This is an additional reason for emerging Europe to continue with fiscal reforms. Ongoing fiscal reforms in Emerging European countries with expected positive result can be beneficial in safeguarding transitional Europe from spillovers from actual and possible future financial crises or financial conditions worsening.

4.1. The fiscal impact of globalization

Fiscal policy can be used in different areas to help emerging and developing countries benefit from financial globalization and financial deepening. The area of impact is as follows:

1. Tax revenue

a. Financial globalization often can lead to increased tax competition. In order to attract foreign investors many emerging countries are faced with an increasing pressure of lowering corporate tax rates.[1] Over past two decades some of the emerging Europe reduced corporate taxes. Poland reduced statutory corporate tax rate from 38% u 1997 to 19% in 2007 and Czech Republic from 41% in 1997 to 25% in 2007.
b. Both emerging markets and developed countries have increased their corporate tax revenues (as a relative to GDP and as a percent of total tax revenue) in emerging markets corporate tax now accounts for almost 20% of total tax avenue.
c. The explanation of at first sight strange combination of declining corporate tax rates and increasing corporate tax revenue is broadening of corporate tax base by cutting back exemptions and strengthening tax administration.

2. Tax policy in financial sector

When financial sector importance grows as a result of financial deepening in emerging countries, tax revenue might become more volatile. The reason for increased volatility of fiscal revenue is the fact that financial sector income is more volatile than that in other sectors. The nature of VAT treatment of financial services also can affect capital structure across the countries.

3. The impact of financial globalization on public spending

Although recent studies urge that inequality across the globe is rather result of technological changes than globalization, government is almost always consider responsible for supporting those who lost their working places or their income as a result of higher trade and financial openness.

Also, additional investments in economic and social infrastructure are needed for governments of emerging markets in order to keep in line with competitive external environment. Governments in emerging Europe are keeping with upgrading infrastructure in order to attract foreign investors.[2]

Generally speaking, increased financial globalization together with increased trade openness tends to lead towards lower government spending.

4. Globalization has implications for financial risks both fore banks and the government. When financial crisis spilled over emerging markets as a result of globalization, governments were in pressure to bail out financial institutions when they got into difficulties. Government excuse for bailing out is avoidance of contagion effects that might result in further insolvencies. Protection of depositors can also be the reason for avoiding contagion liabilities.[3] The fiscal costs of bail–out and restructuring are often large.

[1] There is an evidence that in reacent years corporate tax has been reduced worldwide. Over the past two decades corporat tax in developed countries also has been redused from an average of 45% to an average of 35%. This especially refers to Austria, Denmark, Sweden,Portugal and Finland. In emerging Asia and Latin America corporate tax rate also decline.

[2] Employment subsidies are also used by emerging countries government as a support measure for the attraction of foreign investors.

[3] The intervention is often in form of deposit guaranties and introduction of low-cost credit, write-offs of bad loans and recapitalization of banks.

Rapid financial liberalization often raises the probability of financial crises in the short-term. Cross-country analysis suggests that 18 out of 26 banking crises both in developed and developing countries in 1980s and 1990s happened five years or less after substantial financial liberalization. Deterioration in lending standards, increased moral hazard (in the form of bail-out expectations) and excessive credit growth also led towards financial crises.

5. Financial deepening in the long-run leads towards greater financial stability through more efficient allocation of funds, risk diversification and growth. But, in the short-term the introduction of new financial instruments, increased global liquidity and higher propensity to risk might lead towards correction in asset prices. Weak macroeconomic conditions can result in problems in financial sector (bad legal and institutional infrastructure, inappropriate risk management and ineffective prudential regulation).

6. Deterioration in the fiscal position could compromise economic growth prospective. Financial globalization could weaken fiscal discipline in the short-term by introduction of easy access to external financing. When capital inflows are huge the negative effect of government borrowing on credit risk premium can be dampened. Government therefore, can postpone fiscal adjustment and put off decisions to raise taxes and cut spending. Namely, government is disciplined by financial markets through the impact of fiscal deficits on the credit risk premium on government debt.

Emerging market countries have lower credit ratings. In emerging region a 1% of GDP increase in the deficit, raises foreign and domestic currency interest rate spreads by about 20 and 30 bases points respectively.[1] The response is even stronger if deficit rises due to higher government consumption.

There are more channels through which financial globalization can impact fiscal policy. In order to use positive effects of financial globalization and financial integration and to minimize negative spillovers, fiscal policy should be prepared to react by:

1. Creating fiscal capacity to increase government revenue and reduce expenditures
2. Borrowing more in domestic and global financial markets when fiscal pressures emerge (but only if it is necessary).
3. Performing necessary fiscal adjustment when country is facing difficulties with debt sustainability and
4. By avoiding pro-cyclical fiscal responses without good reason.

Financial globalization should not create a problem for the government in the form of high indebtedness (unsustainable indebtedness) or sudden fiscal adjustment.

5. Financial globalization and global financial crisis

Financial globalization has its most recent reflection through the latest 2007-2009 global financial crisis. The story is well-known: crisis that started in the US sub-prime market spread across developed countries and after that relatively quickly spilled over to emerging markets.

Some of the authors argue that the global economy is prone to crises under the predominantly US dollar reserve currency system. Today the US as the principal reserve-issuing country can not satisfied an increasing demand for foreign exchange reserves in the rest of the world. The demand for US currency is increased because rates of economic growth in some of the most influential emerging countries (such as China, India, etc.) are high and those countries want to hold reserves as a mean of liquidity. Therefore, they spend less then they produce i.e. they are net-savers that run current account surpluses in order to increase their foreign exchange reserves as a represent of liquidity. Because of US dollar serving as global reserve currency, the US plays a role of world lender-of-last-resort. As a consequence, the US runs the deficit to meet the demand for global liquidity as well to support global aggregate demand.

The use of the dollar as the principal global reserve currency was the reason for the internationalization of the US financial crisis. Crisis on the housing bubble and weak and inappropriate financial regulation are just a part of the tale. The main roots of the crisis might be deeper: the absence of readiness of the US to cut the expenditures and find a balance between growth and inflation control at home and in the rest of the world.

Crises in contemporary world additionally emphasize the need for foreign exchange reserves that serve for the rest of the globe as a form of self-insurance against risks such as:

-capital account crises
- illiquidity
- the failure of export-led growth strategy

[1] For details see Hauner, Jonos and Kumar, (2007)"Globalization, Financial Markets and Fiscal Policy" IMF Policy paper prepared by Fiscal Affairs Department , November 16, 2007

-capital flight ,etc.

The latest 2007-2009 crisis that began in the US was not caused by stops in capital inflows towards the US but by a large contraction in aggregate demand that was the result of domestic financial crisis. Capital flows towards the US economy continued during the crisis and served as a buffer to the US economy. Current account surpluses in some of the emerging markets were recycled by lending to the US. So, during the latest global financial crisis capital actually flowed out of the emerging markets towards the US.

As flows of the capital from Emerging markets and the rest of the world towards the US during the crisis might be strange, an analysis made by Caballero (2010)[1] offers interesting explanation. According to this author global financial crisis was caused by the huge demand for safe dollar assets. This demand put on pressure on the US financial industry to create "safe" assets through process of securitization of very low quality financial instruments like sub-prime mortgages. The creation of those low quality assets was undertaken in order to satisfy the demand for safe assets from the rest of the world and from US financial institutions. This large "just in case" demand from investors and central banks all over the world for "safe assets" was the reason for capital outflows from emerging markets towards US. Therefore, it was an attempt for satisfying global demand for safe assets that caused panic, higher leverage and macroeconomic risk that was concentrated in the US financial institutions.

To conclude, financial globalization and pro-ciclicity of capital inflows in the last two decades show that global crises are possible and that they happen. Emerging market economies have become important factors in international banking and capital markets as financial globalization proceeds. But, they have also become more vulnerable to changes in investors decisions and portfolio changes in developed economies. The reason for additional sensitivity of emerging markets is the fact that equity and short-term flows become more important than banking flows that were of greater importance in the past.

The radical solution for pro-cyclicity of capital flows and systemic crises such as the latest one might be reform of global reserve system through the adoption of a supranational global reserve currency.

In the meantime, regulation of global capital flows may be a second-best solution. The regulation requires international cooperation in order to increase the policy space for countercyclical policy. Reforming the global reserve system will take time and as financial globalization continues, regulating capital flows in order to avoid serious global crisis in the future is rather collective than national challenge.

5. Conclusion: advantages and disadvantages of globalization

According to Michael Pettis[2] globalization is primarily a monetary phenomenon in which expanding liquidity induces investors to take more risks in their engagement in investing in underdeveloped markets with an anticipation of higher investment returns. Under this argument globalization is initiated not by political or social motives but by investors' economic incentives.

World Bank and the IMF as international institutions are not the main force that drive globalization in the real world. The main force is the investment surplus in capital market of developed countries, economic opportunities for interest rate arbitrage among the world financial markets and, most importantly, investors' economic incentive to take higher risks and expect a higher return in underdeveloped market.

Globalization is driven by monetary expansion. Commerce and finance primarily drove globalization not science and technology (though, satellites, internet, electronic trade and global webs such facebook highly contribute to this phenomenon). Some of the authors argue that globalization is certainly not driven by politics and culture. It was not the coincidence that each of the major periods of technological progress coincided with an era of financial market expansion and growth in international trade.

The process of financial expansion goes as follows: the expansion initially causes local stock markets to boom and real interest rates to drop. Investors, hungry for high yield pour money into new technology ventures that attract risk capital. Financing also begins flowing to the peripheral economies around the world, which, because of their small size are quick to respond. This new capital inflow makes the local market grew suddenly and spurs development in underdeveloped countries. That is why globalization might primarily be a monetary phenomenon in which expanding liquidity induces investors to take more risks.

According to Robert Wade, a professor of political economy at the London School of Economics, globalization has actually resulted in greater global income inequality and worse conditions for the poor. A silent revolution in the field of technology, transportation and communication, according to Wade, made the globalization of finance an obvious choice.

The impact of financial globalization is huge in the composition of national and international capital markets. Nevertheless, this global process that can not be stopped has its disadvantages that are as follows:

[1] Caballero Ricardo, (2010), "Feasible global rebalancing: A case for monitored and temporary dual exchange rates",

[2] Michael Pettis" Will Globalization go Bankrupt?", Foreign Policy, September, 01., 2001

1. Weak economies could be affected by the financial shocks from different countries
2. Financial globalization can cause stock market turbulence, bank failures, corporate bankruptcies and currency depreciation and
3. Most of the countries are more or less affected by financial shocks in the US. Sudden reversal of capital can also create a great economic turbulence on a large scale due to financial globalization.

But, potential and real advantages of financial globalization are also huge:

1. Thanks to financial globalization capital flows between nations increase which, in turn, support better world-wide allocation of money
2. The globalization of finance has improved living standards of many people and
3. Financial globalization is the safeguard to defend against national shocks and an excellent system for more efficient global allocation of resources.

Let us conclude with the fact that financial globalization is extremely advantageous for the developed countries while developing countries could hardly derive the benefits of globalization as their infrastructure is not that much of well equipped. Nevertheless, emerging Europe together with the rest of the emerging countries has to fight for the prosperity of its economic and financial system. For this group of the countries the future might be brighter than it looks at the moment: some of the leading emerging markets are just a bit away of living their economic dream in a real world.

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SUMMARY
The purpose of this paper is to shad light on the impact of financial globalization and integration on emerging Europe countries. In the first section connection between financial globalization and capital raising will be analyzed. Part two will deal with the effects of financial integration on growth in European transition economies. In the third part the emphasis will be put on the influence of financial globalization on fiscal performance in emerging Europe. Finally, in the concluding part, the impact of 2007-2009 crisis on financial globalization will be analyzed.
Keywords*:* financial globalization, financial integration, emerging European countries, economic growth, capital raising.
РЕЗЮМЕ
Цель этой статьи - оценить воздействие финансовой глобализации и интеграции на развивающиеся европейские страны. В первой части проанализирована связь между финансовой глобализацией и наращиванием капитала. Во второй части речь будет идти об эффектах финансовой интеграции на рост в европейских транзитивных экономиках. В третьей части акцент сделан на влиянии финансовой глобализации на фискальную деятельность в развивающейся Европе. Наконец, в заключительной части, проанализировано воздействие кризиса 2007-2009 гг. на финансовую глобализацию.
Ключевые слова: финансовая глобализация, финансовая интеграция, развивающиеся европейские страны, экономический рост, наращивание капитала.
РЕЗЮМЕ
Мета цієї статті - оцінити вплив фінансової глобалізації та інтеграції на європейські країни, що розвиваються. В першій частині проаналізований зв'язок між фінансовою глобалізацією та нарощуванням капіталу. У другій частині мова буде йти про ефекти фінансової інтеграції на ріст у європейських транзитивних економіках. У третій частині акцент зроблений на впливі фінансової глобалізації на фіскальну діяльність в Європі, що розвивається. Нарешті, у заключній частині, проаналізований вплив кризи 2007-2009 р. на фінансову глобалізацію.
Ключові слова: фінансова глобалізація, фінансова інтеграція, європейські країни, що розвиваються, економічне зростання, нарощування капіталу.

THE PERSPECTIVES OF ARMENIAN EXPORT EXPANDING

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Foreign economic policy of Armenia is based on the liberal principles and directed to the widening of its integration into the world economy [1]. Since 1991 Armenian government has signed bilateral trade and economic agreements with 40 countries from European, Asian and American regions [2]. Since 2003 Armenia is a member of WTO. Foreign trade policy of Armenia is directed to the formation of a favorable field for businesses involved in foreign trade and to the stimulation of export of domestic goods.

Describing the place of Armenia at the world trade arena we have to mention some peculiarities that impact foreign economic relations' development. The first is the geopolitical situation that is not favorable