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The Macroprudential Policy as the Phenomenon of the Financial Globalization

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Abstract: The phenomenon of globalization is the growing financial problem for the financial regulation and supervision at the local level. The purposes of the study is to maintain the SWOT analysis of the impacts of globalization onto the process of financial regulation and supervision; to study the requirements of the macroprudential regulation; to describe the documentary and institutional ways of the manifestation of globalization of financial regulation. The article argues that the process of financial globalization causes the globalization of regulation by launching the macroprudential rules, which consequently can either sweep away the national interests or harmonically exist together.

Key words: Financial globalization · Financial regulation · Macroprudential regultaion · Basel Committee on Banking Supervision · Basel III · SWOT

INTRODUCTION

After a long period of relative calming in the international financial system, the global crisis has acted like a serious test of financial globalization, in relation to its regulation. According to the International Monetary Fund (hereinafter-IMF), one of the key causes of the global financial crisis was an inadequate regulation, because of its fragmentation and the scarce of uniform regulatory bodies.

The phenomenon of globalization causes itself the growing problem of the regulation and supervision of financial markets at the local levels. Financial globalization is understood as the integration of the local financial systems, with the international financial markets and institutions. This integration typically requires the liberalization of the domestic financial accounting methods. The term of financial globalization is also meant as the process by which financial markets around the world are integrated into a single one. [1] The main agents of the financial globalization in many studies are the following: government, private investors, borrowers and financial institutions. [2]

One of the problems is controlling over the circulation of money. For example, the dollar-denominated deposits, which are kept as the obligations at European banks the (Eurodollars), are not subject to U.S. or other foreign reserve requirements. Moreover, multinational firms may hold deposits in Japanese Yens in accounts at Japanese banks, by hedging these deposits by futures or forwards, so that these deposits can be converted into U.S. dollars without any losses if the company is required to spend on buying goods made in USA. Thus, in some aspects the world-wide money supply is the most important issue in terms of monitoring over it [3].

Financial globalization can be defined as the free movement of financial flows across national borders without showing any restrictions. Financial globalization requires the introduction of a single currency in the world and consequently a single international monetary control. For the reason, the states at the supra-national level should create conditions for financial globalization's aspects. On the most detailed analysis of the effects of globalization on the financial regulation, see the SWOT analysis in the Table 1.

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Table 1: The impact of globalization onto the local process of financial regulation and supervision: the SWOT analysis

Strengths	Weaknesses:
• The joint solution of common, similar tasks of regulation during the crises times • For the least developed countries - the use (copy) of management models of one's which are developed • High awareness of foreign regulators from facing the crisis and preventing from them - integration of regulators can make them take the early control measures to rescue the economy • Strengthening regulatory monitoring, i.e. increasing the demand for making financial institutions transparent	• Reduced potential of local legislation - the supranational level legislation and rules are at the prevalence than the local ones • The financial markets' development pace becomes higher than the pace of their regulations (e.g. the recent crisis) • The stimulus to create and develop the local regulatory procedures is being reduced • Forced, rushed, partly analyzed regulatory measures were launched to "save the economy"/ regulators were not be fully prepared to face the crisis' systemically destabilizing consequences
Opportunities	**Threats**
• Training of employees of regulatory bodies through continued participation of the countries at international organizations' missions (e.g. academic programs of BIS and IMF; G7, G20 meetings) • Hence - Increased demand for regulatory staff to study foreign languages (increasing demand for linguistic schools, universities, etc.) • Systemic analysis of the degree of the local financial market's integration into the international one • Increased demand for qualified specialists who are able to make a prediction of external risks and shocks, trends of foreign financial markets, etc.	• Reduction of the regulatory control upon the financial flows after their moves out abroad • The risk of "charged" contagion through the cross-border movement (inflow) of financial resources • Moral hazard from the local financial institutions which are strongly internationally integration • Reduction of the law making power of the local regulatory bodies • The counter-measures of the monetary and supervisory bodies against the consequences of a crisis - Damage to weaken the stability of prices and the emergence of other types of risk (on all subjects) (for example, the devaluation of the legal tender in Kazakhstan led to currency risk for individuals, Which led to the credit risk for the banks)

Note - Compiled by author.

Regulatory globalization is the process by which regulators are there to expand their presence at international stage. This can happen in several ways. For example, regulators may contract with the appropriate regulatory authorities in from other countries and agree to coordinate their efforts. In addition, regulators may form an international regulatory institution such as the Bank for International Settlements in Basel which can formally promulgate some regulations such as the Basel Accords on bank capital. [4]

The institutional form of financial globalization is manifested in terms of financial regulation, as the Basel Committee on Banking Supervision. The Basel Committee on Banking Supervision (BCBS) at the Bank for International Settlements (BIS) is based in the city of Basel in 1974 by the central banks of the G10. Currently, the committee members are senior representatives of central banks and financial regulators of G10, as well as Luxembourg and Spain. The European Commission takes part in the work as an observer. The main task of the Committee is to introduce and recommend to use the common standards in the field of banking supervision and regulation. To this end, the Committee is developing guidelines and recommendations for regulatory authorities of Member States [5].

Another example of the manifestation of the globalization of the financial regulation is the adoption and implementation of the directives of the BCBS: "The International Convergence of Capital Measurement and Capital Standards: A Revised Framework", abbreviated - the Basel II. Development of guidelines and recommendations of the Basel Committee, carried out in cooperation with banks and regulatory authorities around the world, this document summarizes the best supervisory practice. Therefore, work on implementation of Basel II is conducted in more than 100 countries and not only in the participant states of the Committee. The Basel II aims to develop a system of banking risk management and supervision upon banks and becoms an essential element of the implementation of the fundamental principles for effective banking supervision. Basel II also focuses on a country to require banks to maintain capital at a level to adequasy for banking risks. The main purpose of Basel II is to improve the quality of risk management in the banking industry, which in turn should enhance the stability of the financial system as a whole.

Liberalization and globalization of financial markets have made the financial system more open, competitive and risk-oriented. In addition, constantly accelerating pace of financial innovation makes it difficult to assess

risks. The development of very large financial institutions also means that their problems may cause systemic effects. All these factors tend to blur the boundaries between the macro and micro prudential supervision. Meanwhile, on the other hand, the opponents of the macro-prudential requirements argue that any macro-prudential barrier could be harmful and can hinder the development of economic systems, because the world needs to intermediate through systemically important financial institutions in order to have a timely assistance for doing business, to grow globally and thus help the whole geographical units to develop their economies. In connection with this we should mention the advantages of global foreign banks' operations at the local level like following: increased competition in the domestic market; expanded access to financial services; improvement of the financial and economic activities of the borrowers; improvement of the quality of a financial intermediation; the introduction of new, more diverse products at the local levels, increased use of the up-to-date financial products; forced development of a local financial regulation and supervision; increase of the transparency of financial institutions.

But the making such a controversy and division into two fronts in this regard is still useless and cannot stop the new developments in the regulatory process, which runs in order to avoid the problem of "moral irresponsibility" of the significant financial intermediaries, the globalizing factor of financial corporations and their "imperial" possibilities.

The global crisis has strengthened the importance of economic reforms at the international and national levels. There are two main categories: The reforms that could reduce the likelihood and severity of future crises and the reforms which improve macroeconomic and financial stability in the event of a crisis. At the international level, the most direct challenge is to improve the regulation upon the global financial system. In this case, the reforms provide a coherent, effective regulation on the global banks, which are the main bridge for the international financial flows. This will contribute a deep knowledge of the international activities of these banks, the vast range of database and the full integration of international financial centers. To analyze the patterns of international systemic risk regulators need an interpretation of such a data and to develop an appropriate preventive regulatory measures. The main element of international policy reform is to build a strong international protection.

The global financial crisis of 2007-2008 has showed that regulation, focusing on individual institutions challenged the task to investigate preventive rules on systemic risks of the financial market. An interconnected network of the international financial system must be better prepared to deal with the insolvency of the banking system. IMF staff believes that regulatory agencies should be there to prevent the new accumulations of systemic risks, to provide a solid framework for regulation on the global financial intermediation and provide a clear and consistent method to combating against the financial instability as it occurs.

At the international level, the regulator has three main objectives, which are not always compatible: (I) financial stability, (II) the independence of the regulatory policy, (III) of financial integration. Financial stability seems to be the most obvious target. G20 has made a quite clear consensus among central banks since the recent crisis had happened. They agreed on the need to strengthen the financial supervision on systemically important financial institutions and greater coordination of national policies in order to ensure financial stability at the international level. [6] At the peak of the crisis there was no adequate counter-cyclical prudential regulation. [7] The capital adequacy rules of the "Basel I" and "Basel II" were not enough to withstand the risks associated with (securitization and hedging) and they do not take into account the systemic risk associated with the build-up of leverage in the financial system. The newer "Basel III" accord is focused on regulation on banks in the post-crisis period. In accordance with the recommendations of several research groups that have been created to study the possible responses to the effects of the crisis, the "Basel III" establishes the framework for higher capital requirements and liquidity, to ensure that banks will be better equipped to absorb losses. Thus, the "Basel III" requerments increas banks' ability to absorb losses. In addition, the "Basel III" encourages the development of counter-cyclical capital buffer (between 0% and 2.5%). Global institutional reforms called to develop the regional adjustments that could improve macroeconomic and financial stability of the financial system on the local level. [8]

However, even if the global and regional financial architectures will be much improved, the problem of "moral irresponsibility" still remains when the largest expenses in the case of the financial crisis will be faced by ordinary taxpayers. [9]

Regulators now face the great difficulties in predicting the effects of defaults because of the transparency of the financial system and the methodology for the monitoring over the systemic risks. The task of defining adequate indicators of a systemic risk is updated today due to the complexity of modern financial structure and thus, it becomes necessary to run a more objective assessment of systemic importance of financial institutions and objective basis for assessing the effectiveness of macro-prudential regulation. Thus macroprudential policy attracts regulators. In 2009, Bernanke suggested the possibility of the creation of an anti-systemic risk responsibility by monitoring the interaction of fast-growing markets, evaluation of possible changes of new products, the risk spread between the financial institutions and markets, the interaction of the highly interconnected institutions and possible regulatory gaps.

A key step is to develop the regimes that would limit systemic imbalances and fiscal costs of rescue the troubled systemically important banks. Today, the main task of the regulators is to develop effective macroprudential tools, which are tasked to limit systemic risks. The macro-prudential regulation is the set of policies aimed at improving the stability of the financial system in order to reduce the effect of systemic risks that are spread throughout the financial system through the interconnectedness of institutions, their total exposure to shocks and inclination to operate pro-cyclically. The main objective of macroprudential policy is to determine the interdependence of financial institutions and markets, as their overall impact on economic variables which pose risks. The use of complex financial instruments and involvement into complex structures of credit relations, thus increasing the degree of the relationship make it vulnerable to the rapid spread of failures. Hence, the emphasis on micro-supervision by itself is not sufficient, in the way of fighting against the macro-prudential problems. [10]

If financial globalization is increasing the size of financial assets relative to growth of the real sector of the economy, a high degree of interdependence of the financial system and the complexity of the structure of the financial system, the macroprudential policy will need to be the countermeasure to foreshadow and mitigate the effects of global imbalances. In terms of economic policy changes against the negative effects of the global financial shocks, it should be guided by the following modes: 1) a counter-cyclical policy, which takes into account financial cycles, 2) it is important to have a reserve, which can cope with the adverse shocks during the crisis. There should also be revised public debt levels to slow its pace down during the financial crisis.

Thus, globalization means greater and greater integration of national economies, including the financial markets, which ultimately leads to the creation of a single market. Even if the "Big Twenty" countries De-Jure not recognize the Basel Committee on Banking Supervision as a kind of supranational supervisory authority, to date, the de-facto control of more than 100 states from all over the world are adopting the use of the directives issued by the Committee. This phenomenon provides a basis to state that financial regulation is developed in a wave of financial globalization. At the global level, the decade before the crisis the rapid growth of international financial market has contributed to the excessive growth of credit markets, which reached the peak phase at the crisis. Financial globalization promotes lending and external debt positions of the countries contribute to spread the effect of "contamination" of the crisis. According to IMF experts, one of the key causes of the global financial crisis was inadequate regulation, because of its fragmentation and the scarce of uniform bodies. Obviously, the financial regulator comes not to be fragmented. Experts in the field of financial regulation note that international borrowers are quick to develop innovative measures to "make up" their balance sheets, moving the assets between its subsidiaries. And in this respect, a sluggish action is shown on the part of the creditor-banks in the analysis of the balance sheets of its international borrowers. Taking advantage of the weakness of the regulator of certain nations, borrowers put their toxic assets in these countries, creating subsidiaries there. And the researchers say in this case that the weak regulators do not have to deal with smart transnational companies, as they have no incentive or authority due to a lack of research and experience.

In this way the representatives of the Western scientific community in the field of financial regulation is promoting the creation of supranational regulatory authorities. IMF staff also believe that regulatory agencies should be reorganized in order to prevent a new accumulation of systemic risks, to provide a solid framework for regulating global depositors and investors and to provide a clear and consistent method to combat against the financial instability as it occurs.

So, globalization of financial services and intermediation requires globalization of its regulation, with a view minimizing the risk of the latter by the attempting to save the supervised financial system from the crisis and macroprudential policy is there to act against the effects of globalization of financial markets. When working under the general auspices of an international or regional legal framework, the implementation of financial supervision will remain mostly on the local level. The main responsibility for adapting global economic regimes in connection with financial globalization lies to the regulators' decisions. In addition, the reform of domestic economic policy should be complementary and harmonized in a parallel with reforms at the international level. Although there were a lot of economic reforms in the crisis, much remains to be done in terms of the development of global and national macroprudential regulatory framework that can cope with the negative effects of high levels of international financial integration.

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