DIRECTIONS OF IMPROVEMENT OF THE GLOBAL FINANCIAL SYSTEM

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Abstract: *the world financial system is one of the foundations of the modern world economy. Its main function is to stimulate world economic development. However, in the era of wide use of speculative capital and other high-risk financial transactions, it could cause a major international crisis. One of the most pressing challenges facing the global economy, is the search for an optimal balance between permissions and prohibitions of miscellaneous financial activities. That is why the international community increasingly clearly and distinctly recognizes the urgent necessity of ongoing and fundamental reformations and development of the global financial system.*
Keywords: *global financial system, globalization, the Great recession, banking, financial risks.*

НАПРАВЛЕНИЯ СОВЕРШЕНСТВОВАНИЯ МИРОВОЙ ФИНАНСОВОЙ СИСТЕМЫ

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Аннотация: *мировая финансовая система является одной из основ современной мировой экономики. Её основная функция заключается в стимулировании мирового экономического развития. Однако, в эпоху развития широкого использования спекулятивного капитала и прочих высокорискованных финансовых операций, это может стать источником крупного международного кризиса. Одной из наиболее насущных задач, стоящих перед мировой экономикой, становится поиск оптимального соотношения между дозволениями и запретами различных финансовых операций. Именно поэтому международное сообщество все более явно и отчетливо признает острую необходимость постоянного основательного реформирования и развития мировой, а вместе с тем и Российской, финансовой системы.*
Ключевые слова: *мировая финансовая система, глобализация, Великая рецессия, банковский сектор, финансовые риски.*

Introduction. Modern world economy is unimaginable without an established system of financial relations. Global financial system, being one of the most complex areas of the international economic relations, constitutes the foundation of the functioning of the global economy. Due to its nature, it represents the issues of the global and national economies that are historically tightly interrelated.

The global finance. The global financial system is regarded as a historically established form of organization of international monetary relations. It is an economic relationship basically connected with the functioning of the world money. Finances intermediate various types of interrelations between countries, such as: foreign trade, capital export, investment, lending and subsidies, scientific and technological exchange, tourism, etc. One of the most prominent integral organizations related to the global financial system is the International Monetary Fund (IMF). This monetary-credit organization is established in order to provide a comprehensive regulation of the currency relations of its members, to eliminate the existing national currency restrictions in order to create an international system of payments for current operations. What is more, the IMF is responsible for the provision of the worldwide financial assistance. In practice, the International Monetary Fund is one of the primary responsible entities for the determination of the vector of the global economy development.

Appreciating its prime importance for the world economy, one should recognize that financial system can become a kind of stumbling block for the global development [1]. The reason is that the global financial system is very sensitive and vulnerable to any more or less substantial changes in the worldwide economic balance.

Consequently, it is vital for this system to be undergoing the perpetual process of thorough analysis and development.

The speculative market and the world crisis. The most urgent problems of the nowadays global financial system are relevant to the worldwide crisis. The financial crisis of 2008 originated in the United States. Primarily, its sources are associated with the derivatives and real estate markets. It has quickly spread to other countries causing financial crush and affecting the other sectors of the national economies. First of all, the depth of the crisis can be characterized, for example, by the figures of the falling stock indexes: The Dow Jones index fell by 1.6% to 11951,09 points, below the psychologically significant mark of 12000 points. To defuse a situation, the FED (the Federal Reserve System of the USA) decided to reduce the discount rate to 3.25% [7]. On the Russian stock exchanges on 21 January there was a stock-market plunge. The first time since the September 2007, RTS dropped by 7.38% – to 1999,83 points [6].

For instance, one of the most important factors of such economic depressions is the phenomenon of the speculative capital. This notion refers to the funds earmarked by an investor for the sole purpose of speculation. This capital is often associated with extreme volatility and a high probability of loss. Most speculators have short-term investment horizons and often use so-called leverage in their efforts to obtain profits. Financial leverage is the degree to which a company uses fixed-income securities such as debt and preferred equity [2]. In other words, companies resort to leverage when they are trying to reach their objectives using borrowed capital. On the one hand it can help to overcome limitations of their own accumulated capital. On the other – high degree of financial leverage means high interest payments, which negatively affect the company's bottom-line earnings per share and stability in terms of risk balance. Hence, the stockholders' financial risk is reflected by an increase in ratio of their debt and preferred equities in the company's own capital structure. Causing instability, this phenomenon can be a destructive factor for the economic system on the world scale. However, practical experience suggests some methods of restricting the scale and scope of speculative activities.

During the Great Depression, Franklin Delano Roosevelt, acting as the president of the USA, have signed the Glass—Steagall Banking Act of 1933. Until the end of the twentieth century, this act exerted great impact on the American banking system [3]. It was prohibited for commercial banks to engage in venturesome investment activities of any kind. The banks' rights on operations with securities were significantly restricted alongside with the introduction of the compulsory insurance of Bank deposits. The adoption of the Glass—Steagall Act was a reaction of the US authorities on the financial crisis that began in the fall of 1929 and primarily affected the national stock market. Since previously commercial banks actively participated in transactions on the US stock market using customer funds to purchase securities, the stock market crash seriously undermined the US banking system. The primary response of authorities was the "Banking act" of 1933. Banning commercial banks to participate in operations at the securities market, the Glass—Steagall act divided the concept of commercial and investment banks. This law had a significant influence on the advancement of the banking legislation of foreign countries and on the further development of the global financial system.

Restricting speculative activities. The constraints, imposed by the Glass — Steagall Act, were repealed by the Gramm–Leach–Bliley Act (GLBA) in 1999. According to many experts like Joseph Stiglitz [5], this event, to some extent, had led to the global economic crisis of 2008. After that, the US government introduced a number of laws in order to minimize the possibility of recurrence of the "Great recession". Their objective was diminishing of the effect of risky and sometimes (when proved) illegal, fraud trading activities of the largest global banks [3]. This was often happening when these institutions invested their free capital reserves in mortgage-backed securities. This market was grossly overinvested, and the fall in the value of these assets was one of the main reasons for the bankruptcy emergence of many financial institutions, not only in the USA, but worldwide. Thus, the need for the further regulation measures of this economic sector was obvious.

One of the most significant milestones of the changes was the Volcker rule, a specific part of the Dodd — Frank Act of the consumer protection and the Wall Street reformation. It was proposed by the American economist Paul Volcker, and adopted by the financial regulators of the United States. This rule restricts the involvement of U.S. banks that attract deposits from population and organizations, in the operations of purchase and sale of securities on its own funds, that were initially intended to cover the bank's obligations to its clients. The law is primarily aimed at restricting risky and speculative activities of strategically and systemically important banks, such as Goldman Sachs, Morgan Stanley and JPMorgan Chase. The Dodd – Frank Act performed rather well, if it can be said so about such a short "trial period". In addition, the law on tax reporting on foreign accounts, commonly known by the abbreviation FATCA [4], was adopted by the United States in 2010. It was directed against evasion of American citizens and residents from paying taxes. The adoption of FATCA had large external impact, as it obliges foreign financial institutions to report to the internal revenue Service of the United States on movement of funds of American taxpayers.

In January 2014, the European Union has announced measures, similar to the Dodd-Frank and the FATCA Acts. A ban on proprietary trading (occurs when a trader trades stocks, bonds, derivatives, or other financial instruments and assets using the firm's own money, as opposed to depositors' money, so as to make a profit for itself) can enter into force for the leading European banks on the territory of the EU in 2018. The aim of these reforms is the transformation of the financial services market. It meets the need for a more sustainable financial structure that could withstand a potential bankruptcy of some financial institutions while continuing to ensure the functioning of the economy.

Implications for Russia. For Russia the critical need of a long-term strategic vision of economic development is obvious. It is especially clear if one compares the legal framework and official rules of the financial market functioning in the Russia and the developed countries of the West. First of all, it should result in new consistent principles of national financial market regulation. At the moment, Russia is much less protected from the financial crisis and other probable devastating impacts of the financial market. The lack of the proper organizational foundation makes financial market a source of instability, undermining economic development.

Conclusion. Development of the modern global financial system should include such goals as restoration of economic activities and investors' confidence in countries that have experienced financial crisis; minimizing the risks of future crises; limiting their depth and scope; and preventing development of macroeconomic and financial imbalances at the national level. All this will potentially lead to creation of a financial system that would take advantage of all the advantages of global markets and capital mobility with a minimal risk of destruction. It will provide effective protection of the most vulnerable social groups. In whole this goal can be reached by implementation and further refinement of reforms of international finance. The central role in this process should be played by the measures already applied by the USA and EU and that probably will be adopted by the future IMF sessions. Particularly important is further improvement of the mechanisms of resolving crises and developing ways to induce private sector abstain from highly risky speculative activities. Ultimately, these methodological and practical recommendations should be wisely adjusted to a certain country circumstances and to the modern realities.

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