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NEW FEATURES AND RISKS OF GLOBAL FINANCIAL MANAGEMENT

Abstract

The motive for writing this paper is to answer the question of whether and how global financial management affects positively the overall socio-economic and financial relations in markets around the world in the context of the international financial system. This paper links questions about the relations between international financial markets, on one hand, and monitoring and analyzing the movements of globalization on the other hand, of a large group of countries, in the so-called developing countries and emerging market economies.

The main research question is: what are the latest features and risks of global financial management after major market turbulence and crises. For this purpose, generally the work is divided into two parts, which encompasses theoretical and methodological studies. Namely, they describe, the role, problems and conditions in the functioning of the global financial markets in conditions of great uncertainties and risks. In this context, the new features and peculiarities of the international economic environment, the analysis of globalization in the work of multinational corporations and firms, the planning, organization and stabilization of the international financial system are revealed.

The following results are expected from the research: that the global financial management and the free market should urge more actively for a more favourable economic ambience on the development of the global economy and the global financial markets and as such they should be more and resistant to risks.

Keywords: international economic environment, globalization, global financial markets, international financial system.

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Introduction

This paper warns from several sides the danger of strengthening protectionism in the international financial system, as well as from possible further market turbulence and crises. In the last few years, the dangers of "deglobalization" have been discussed, rather than continuing the process of globalization.

As a problem, it may arise that managers possessed by solving their own economic problems in national economies are scared by the intensification of the phenomena of de-globalization, but they also anticipate that the continuation of the globalization process is not possible without a thorough reform of the global institutions and policies. Therefore, the international financial management is striving to pursue the continuation of the processes of globalization.

Therefore, the goal of this paper is trying to capture the new features in the process of contemporary stages of the development of the world economy. As such, they are distinguished as: modern developed countries that have benefited from the benefits of globalization, as opposed to a large group of countries, the so-called, developing countries, and emerging market economies (NMEs), which are on the sidelines of this process in the world economy. Thus, the processes of global economic integration have become a priority task in modern international financial management.

This goal is far more complex and as such should be the subject of good global financial management in an extremely complex and risky environment. Precisely this is the basic hypothesis of this paper, that global financial management and international financial markets today face new challenges and risks. The reason for this is the complex situation in the international economic and financial relations. In the globalized era, these relations continue to be confronted with large turbulences and manifestations of financial markets. As such they deserve special analysis, both for the companies (micro level) and for the countries (macro level), with a special emphasis on the Balkan region.

The subject of the paper is the presentation of the new features and risks of global financial management. It requires new approaches, national and international regulation, a new role in world and regional financial responsible institutions. In this context, the main characteristics and risks of the international economic environment are revealed, by analyzing globalization in the work of multinational corporations and firms, turbulence and issues on the development of the global economy and global financial markets.

Therefore, the purpose of this paper is to explore this topic in order to highlight the problems and conditions of international finance, the world markets, and the economies as a whole. Also, focus on their diversity and contradiction and in particular to distinguish some peculiarities, characteristics and trends in global financial management. The ultimate goal is gaining knowledge about financial stabilization, overcoming the current risks of developing countries, emerging market economies as well as successfully tackling the new challenges of global financial management.

1. THE CHARACTERISTICS OF GLOBAL FINANCIAL MANAGEMENT

The financial institutions in Europe, were allowed to conduct investment banking and commercial banking functions. Accordingly, London branch offices of foreign commercial banks were allowed membership on the London Stock Exchange. The purpose of these designed changes was to make London a world financial center. Such a change resulted in success, and in 2017y, the London Stock Exchange was facing a fierce challenge among the world's major financial centers. By contrast, the United States abolished the "Glass-Steagall" act, which restricted commercial banks in the area of investment banking. This caused another additional competition among financial institutions. On the other hand, developing countries like Chile, Mexico and the region of Korea have begun liberalizing and allowing foreign capital that could directly invest in their financial markets. Corporations have also played a very important and active role in the challenges of integrating the world financial markets by issuing their shares abroad.

Thus, according to reports from the global economic perspective,[1] economic activity has reached a state of long-term recovery in investment, production and trade. Therefore, in 2016, world economic growth reached a 3.1% tendency, then in 2017 with 3.5%, and for 2018y, it is expected to reach somewhere around 3.6%. Stronger activity and expectations of a stronger global demand along with agreed oil supply constraints have helped in production and prices recover from their recovery in early 2016y.[2] The higher commodity prices pro-

[1] International Monetary Fund, World Economic Outlook – Global prospects and policies, gaining momentum slightly above the October, 2017 year, 11p.

[2] International Monetary Fund, World Economic Outlook, the projection for fiscal policy in the United States is the one, IMF staff sees as the most likely among a wide range of possible scenarios, 2017 y, 12-14 p.

vided some relief for commodity reserves, and exporters helped boost global inflation by reducing deflationary pressures. At the moment, the situation of the global economy lies at the crucial crossroads, which is mostly contributed by the technological and industrial revolution that has yet to experience a tendency of growth. But, it warns of the weaker demand, the volatility of the financial markets, the modest trade and insufficient investments.

Thus, today financial markets are buoyant and are expected to continuously support the policies of large economies, for example, in China with fiscal expansion and deregulation in the United States. If the confidence and sense of market economy remain strong, short-term growth can indeed come with an upward trend.But, these positive developments should not distract, because binding structural obstacles to stronger recovery and risk equilibrium tend to decline, especially in the medium term.

A new characteristic feature in the international trade has received, *the developing markets and the developing economies* which have shown themselves as exceptionally good. At the same time, other new characteristics were noted in the sectors of *"new free market economies",* but with new financial conditions which are still diverse and are on the margins of this process in the world economy.

Namely, with the rapidly expected tendency of interest rate growth in the US, the financial conditions could be tightened with their further potential increase in the value of the US dollar towards emerging market economies, by changing the exchange rate or by the non-compliance of the material balances.

On the other hand, this could harden financial conditions and exacerbate existing weaknesses in a number of emerging markets. This includes China, because it also faces a challenge in reducing the dependence on credit growth. Similarly, the US policy rate projected for 2018y to increase by 125 basis points, reaching the long-term equilibrium rate below 3% in 2019 year. This suggests that financial regulations can lead to stronger short-term funding, but can also jeopardize global financial stability and fuel the risk of a greater financial crisis.

A characteristic feature today has become the sudden increase of the dynamics and the measures of migration of the population i.e. of that important production factor, such as the labor. Tens of millions of people are involved in that process. Quantitative and qualitative characteristics of modern financial management and international economic relations are one of the most factors for the development of the national economy and finances.

However, the threat of the deepening of geopolitical tensions persists, especially in underdeveloped economies such as those in the Balkans.

An important characteristic was the economic activity with a smaller impulse in the second half of 2016y, which was particularly relevant for advanced economies. The United Kingdom, where the costs came out to be elastic after the departure from the European Union (Brexit) in 2016y,[3] remained solid. Such activities with a tendency of growth have also been shown in Japan, thanks to strong net exports in the euro area countries: Germany, Spain, the Netherlands, Austria and others, as a result of strong domestic demand.

Economic performance across emerging markets and emerging economies remained mixed and variable. The growth of China's net exports remained strong, reflecting the continued support from the implemented policy. However, the activity slowed down in India due to the influence of the currency exchange initiative with other currencies, as well as Brazil, which is stuck in a deep recession. Activity generally remained weak from general production, from exports of consumer goods, while geopolitical factors kept growth in parts of the Near East and Turkey.[4]

In many other advanced economies, the stance of monetary policy remained broadly unchanged. A special characteristic was given to *markets of capital*in advanced economies that registered significant benefits in recent months. It was in conditions of strengthening between consumer confidence and positive macroeconomic policies and reports, from April 2017 year.

The speculated attitudes and analyzes[5] of monetary policies in emerging market economies differ, reflecting them in different cycle positions of economies. Accordingly, for 2018y, their fiscal adjustment is expected. It is assumed that global financial conditions remain flexible even though the easing of lending terms in larger economies is projected to offset the expected increase in interest rates. Thus, in comparison with that, the normalization of monetary policy in the United States and the United Kingdom is expected to continue slowly, but without causing major and sustained increases in the volatility of the financial markets.

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[3] International Monetary Fund, the fiscal impulse is defined as the change in the structural fiscal balance as a share of potential output, 2017 year, 15 p.

[4] www.nbrm.mk information from international financial markets, May 2017y, accessed on 06.02.2018 y, 11 p.

[5] https://www.imf.org/en/ World Economic and Financial Surveys, Outlook (GFSR) 2017 y, 17 p.

Table no.1 Table, Detailed overview of world economic conditions, change and projections, expressed as a percentage of the volume of world trade in goods, services and prices from 2016 to 2018 year

Overview of the World Economic Outlook Projections

(Percent change unless noted otherwise)

	Year over Year						Q4 over Q4 2/		
	Estimate		Projections		Difference from October 2017 WEO Projections 1/		Estimate	Projections	
	2016	2017	2018	2019	2018	2019	2017	2018	2019
World Output	3.2	3.7	3.9	3.9	0.2	0.2	3.9	3.9	3.8
Advanced Economies	1.7	2.3	2.3	2.2	0.3	0.4	2.4	2.3	2.0
United States	1.5	2.3	2.7	2.5	0.4	0.6	2.5	2.7	2.4
Euro Area	1.8	2.4	2.2	2.0	0.3	0.3	2.4	2.1	2.0
Germany	1.9	2.5	2.3	2.0	0.5	0.5	2.8	2.1	2.1
France	1.2	1.8	1.9	1.9	0.1	0.0	2.2	1.8	1.9
Italy	0.9	1.6	1.4	1.1	0.3	0.2	1.5	1.4	0.9
Spain	3.3	3.1	2.4	2.1	−0.1	0.1	3.0	2.2	2.0
Japan	0.9	1.8	1.2	0.9	0.5	0.1	2.0	0.9	−0.3
United Kingdom	1.9	1.7	1.5	1.5	0.0	−0.1	1.3	1.5	1.5
Canada	1.4	3.0	2.3	2.0	0.2	0.3	3.0	2.2	1.9
Other Advanced Economies 3/	2.3	2.7	2.6	2.6	0.1	0.1	2.7	2.5	2.9
Emerging Market and Developing Economies	4.4	4.7	4.9	5.0	0.0	0.0	5.2	5.3	5.3
Commonwealth of Independent States	0.4	2.2	2.2	2.1	0.1	0.0	2.2	2.1	1.7
Russia	−0.2	1.8	1.7	1.5	0.1	0.0	2.3	1.9	1.6
Excluding Russia	1.9	3.1	3.4	3.5	0.1	0.0	. . .	. . .	. . .
Emerging and Developing Asia	6.4	6.5	6.5	6.6	0.0	0.1	6.8	6.5	6.5
China	6.7	6.8	6.6	6.4	0.1	0.1	6.7	6.5	6.4

India 4/	7.1	6.7	7.4	7.8	0.0	0.0	7.9	7.4	7.8
ASEAN-5 5/	4.9	5.3	5.3	5.3	0.1	0.0	5.4	5.4	5.3
Emerging and Developing Europe	3.2	5.2	4.0	3.8	0.5	0.5	4.0	4.8	3.7
Latin America and the Caribbean	−0.7	1.3	1.9	2.6	0.0	0.2	2.2	2.3	2.6
Brazil	−3.5	1.1	1.9	2.1	0.4	0.1	2.5	2.2	2.0
Mexico	2.9	2.0	2.3	3.0	0.4	0.7	1.4	2.9	2.8
Middle East, North Africa, Afghanistan, and Pakistan	4.9	2.5	3.6	3.5	0.1	0.0	...	...	...
Saudi Arabia	1.7	−0.7	1.6	2.2	0.5	0.6	−1.4	2.5	2.2
Sub-Saharan Africa	1.4	2.7	3.3	3.5	−0.1	0.1	...	...	...
Nigeria	−1.6	0.8	2.1	1.9	0.2	0.2	...	...	...
South Africa	0.3	0.9	0.9	0.9	−0.2	−0.7	1.2	0.5	1.1
Memorandum									
Low-Income Developing Countries	3.6	4.7	5.2	5.3	0.0	0.1	...	...	...
World Growth Based on Market Exchange Rates	2.5	3.2	3.3	3.2	0.2	0.2	3.3	3.3	3.0
World Trade Volume (goods and services) 6/	2.5	4.7	4.6	4.4	0.6	0.5	...	...	...
Advanced Economies	2.6	4.1	4.3	4.2	0.6	0.7	...	...	...
Emerging Market and Developing Economies	2.3	5.9	5.1	4.8	0.4	0.2	...	...	...
Commodity Prices (U.S. dollars)									
Oil 7/	−15.7	23.1	11.7	−4.3	11.9	−5.0	19.0	−0.9	−3.9
Nonfuel (average based on world commodity export weights)	−1.6	6.5	−0.5	1.0	−1.0	1.5	1.2	1.2	1.0
Consumer Prices									
Advanced Economies	0.8	1.7	1.9	2.1	0.2	0.1	1.6	2.1	2.1
Emerging Market and Developing Economies 8/	4.3	4.1	4.5	4.3	0.1	0.2	3.7	3.9	3.6
London Interbank Offered Rate (percent)									
On U.S. Dollar Deposits (six month)	1.1	1.5	2.3	3.4	0.4	0.5	...	...	...
On Euro Deposits (three month)	−0.3	−0.3	−0.3	−0.1	0.0	−0.1	...	...	...
On Japanese Yen Deposits (six month)	0.0	0.0	0.0	0.1	−0.2	−0.1	...	...	...

Source: International Monetary Fund, World Economic Outlook, Global Financial Stability Reportt, Is Growth at Risk, October 2017 year, accessed on 08.02.2018y, 11 p.

From the Table 1, the size of the economies of the emerging markets and emerging economies, which are presumed to remain at constant levels, are evident, then the aggregate quarterly data is seasonally adjusted and adjusted according to the projected projection made individually by the said countries. With the exception of several vulnerable economies, most developing markets are expected to face generally adjustable financial conditions. As seen in the table from the recent decline in the prices of goods expressed in US dollars, they have expanded and increased in most markets. But, it is important to note that the forecast also includes strengthening the commodity prices.

Thus, since the decline of about ¼ percent in 2015, trade has been on the rise in emerging markets, and emerging economies have shown some signs of recovery, rising to a percentage of 2.2 percent in 2016y. This recovery was backed by a stronger growth between the trade of China and Russia. Namely, for 2017-18 year, global trade growth is projected and tends to increase gradually, while the recovery in investments by exporters of goods has increased the import growth. As a result, global trade is projected to grow at a rate of nearly 4 percent in 2017-18y, (close to 1 percent of the world's global growth rate at the market exchange rate). One of the reasons for these optimistic forecasts of an economic growth is the expected results of recent tax reform in the United States.

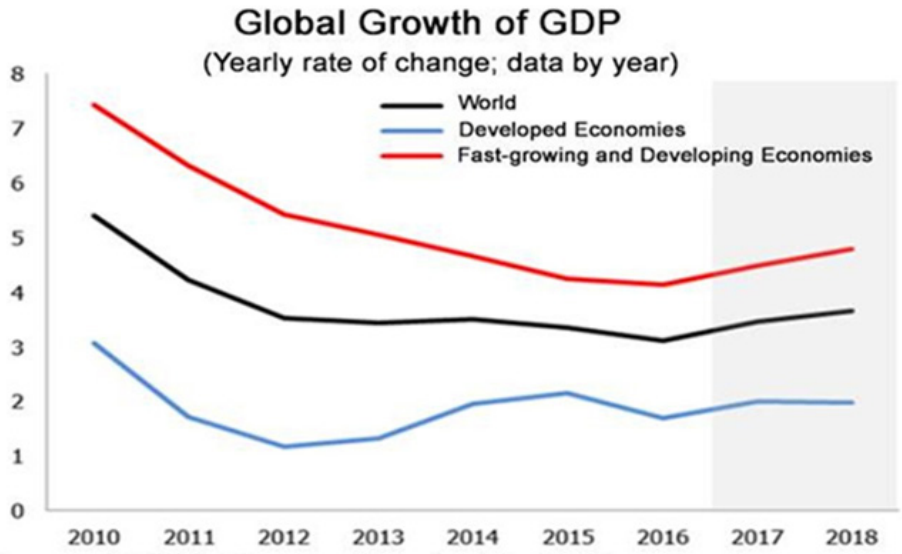
2. RISKS OF GLOBAL FINANCIAL MANAGEMENT

The country's economic policies play an important role in eliminating risks. One of the possible reasons is that it is the financial markets and therefore it is necessary that the global financial market should be more risk-averse. Even after several years, the quantitative easing in the balance of the four largest central banks in the world arose.

Namely, a couple risks can be named, and those are: there is a possibility for a risk in the tightening of the fiscal politics of the developed countries, which can slow its growth; not only that but also the risk in the stagnation of the prices of the raw materials, for which the IMF expected to increase slightly in 2017 y. As a result, low resource prices have caused major damage to developing countries, whose economic growth in the past period has been slightly increased. Another risk, announced by the IMF, is the decision by US President Donald Trump to end the North American Free Trade Agreement. Also, this may reflect badly on economic growth, (reducing jobs and wages) and triggering global turbulence.

In this context there are a lot of risks, but one more important moment is the uncertainty of the European Union with the Brexit, that would be one of the more geopolitical events which will influence the international markets. Those turbulences are considered to be very important risks for the development of the global economy and the financial markets by a great number of analysts and economists.

Graphic no.1 Analysis of the global economic growth of GDP for the period from 2010 to 2018 y.



Source: The analysis is based on the IMF's World Economic Outlook for 2017y, accessed on 15.02.2018 y.

This table 2, describes the realities of the developed economies and their steady growth in the global economy in the last quarter of 2016y. This is reflected in the expected improvements and achievements in developed countries and emerging economies and developing countries. From the developed economies, the USA and Japan have seen a growth trend, while the economies of the Great Britain and the Eurozone have almost the same growth rates for 2016 y.

In addition, the US economy has seen a trend of GDP growth from 1.7% to 2% annually. But, compared to that, the economic activity of the Eurozone has seen an increase of 1.8%, which gives an overview of the general consumption and exports. Similar growth is also recorded in the United Kingdom by 1.9%,

which is also contributed by the general consumption. The Japanese economy experienced a tendency of lower growth compared to other economies, by 1.6%, and was based mostly on net exports, supported by public consumption and investments. Certain signs of recovery are also shown by the Russian economy with (a tendency of growth for the first time after a two-year period of continuous reduction), while in Brazil it continued with the decline, but with a slower tendency. On the other hand, for 2018y, the projections for growth of the global economy are projected to be somewhere around 3.6%.

These conditions indicate that the risks to global growth are mainly downward, but growth in the medium term remains unfavorable. The most important reasons for all this can be distinguished as: the growth of protectionism, the relaxation of financial regulation, the increase in Fed (Federal Reserves) interest rates and the uncertainty about monetary policy measures, the liberalization process, and the uncertainty about the effects on the global economy that can be adversely affected influence and emerge after new geopolitical tensions.

However, this does not exclude the possibility of the continuation of global inflation, which stood at 2.8% in 2016y.It had varied movements in different groups of countries. Thus, this phenomenon increased the global inflation and continued in 2017, and as a result, the accelerated price growth is burdened. Compared to 2016, global inflation for 2017 reached a level of 3.5%, while the 2018y projection is thought to be unchanged (3.4%).

Thus, the global financial report in October 2017y indicated that the global financial system continues to strengthen as a result of extraordinary political support, regulatory improvements and a cyclical upward reversal. The situation of the global banking balances has proven to be stronger because of the improved capital and liquidity barriers imposed in conditions of tighter regulation and increased market surveillance. It is characteristic that some banks are still struggling with a series of same issues and challenges with business models, where progress is uneven. This can intensify, the weaknesses of the non-banking sector and market risks to increase.

Therefore, if there is further compression of the compensation of market risk, it can have a higher impact in the non-financial sector.

However, different movements were observed in different groups of countries. While for developed countries characteristic low acceleration of inflation, developing countries experienced moderate deceleration, despite stable price movements in previous years. From the point of view of the dynamics, the

available data for global inflation for the beginning of 2017y indicate a further acceleration of price growth. But, the movement of oil prices and primary products is predicted with a slight slowdown in 2018y.The Eurozone economy is advised to continue to grow at an intensified pace, mainly driven by household consumption and investment, and especially by foreign investment.

A key risk faced by market policy managers was the lack of secured financial stability, while monetary policies remained in support of global recovery. Because of the turbulences and the challenges on the international economic scene today, every country is striving to protect their investors not to invest in other countries, but to give them better conditions to invest in their countries. The reason for that occurrence can be seen from the economic systems of the societies for which they pay high prices, when the citizens don`t trust the leaders from the public and private sectors. The mistrust leads to a political polarization, general concern for the future and uncertainty for the internal affairs of the countries and their international relations. These symptoms additionally increase the loss of trust. Therefore, it is of great importance for managers to keep an eye on all challenges in order to avoid increasing risks. Because of that, it is recommended not to allow investors to lose confidence in their own countries. But, in addition, more free approaches for investing and opening up to other external markets should be allowed.

The managers of large companies suggest that technical factors may have been the main explanation for the current situation. It is difficult to measure exactly how much of the total sales can be stored on such conditions, but this illustration serves as a reminder that such factors have the potential to intensify volatility and aggravate market movements.

As the more important risk faced by policymakers in markets, there is still a lack of secured financial stability, while monetary policies remain in support of global recovery.

Also, the prices of the assets and flows of the portfolio of economies in emerging market economies continued to recover and stabilize from their levels in comparison with the previous ones in 2015 and early 2016 year. Reducing the challenges and positive investors' sentiment towards the assets of emerging market economies (EME) was reflected by strong inflows and rising asset prices. Namely, they stabilized in the spring of 2015y, and the spread among emerging market economies as compared to US sovereign bonds fell by about 200 basis points over the past two and a half years. These positive market developments re-

flect the domestic factors in the EME and the external ones. On the domestic side, the growth was going towards macro-financial weaknesses that continued to improve in several EMEs. While the recovery of oil prices and the global demand market have increased exporters' views among emerging market economies.

Conclusion

This paper seeks to give directions in perspective, companies and managers in developed countries need to better position themselves and support themselves in order to take advantage of the new technologies and patterns of globalization. To this end, small and medium-sized companies should follow policies to improve competitiveness between existing capacity and connectivity. The international community also needs to rebuild efforts to attract more private investment in low-income countries so that they can more comprehensively integrate into the global economy. Deregulated financial markets and increased competition in financial services in the future should provide a favorable environment for financial innovation through the introduction of various instruments.

Trade policies pursued in markets by 2017y are likely to be marked as very turbulent and uncertain, in the medium term, at least in terms of globalization. Thus, the open rule-based trading system is under threat from pressures from key advanced countries. It remains to be seen how the international system will continue to function. Namely, economic globalization proved not to be responsible for the international financial crisis, but the reason for that is the financial markets, so it is suggested that global financial management should be more risk-averse.

So far, this paper highlights the need for writing what is expected in the future of global financial management – to develop in the direction of countries and international financial markets to go to overcome and solve many of the problems they face in order to make markets better investor-oriented.

In conclusion, it can be determined that there are some fundamental directions and reforms in the structure of companies when exposed in the arena of global markets. They can benefit from the sum of expanded opportunities. As mentioned throughout the paper, it is clear that companies can place their production in any country or region in the world in order to increase their efficiency and raise funds from any capital market where the cost of capital between markets are the lowest.

As an essential problem, it is suggested that the economic financial system is likely to stabilize and strengthen with the ultimate goal of creating a great wealth, and on the contrary, poverty will be reduced. Because of this, there are many types of market economies that continue fiercely to compete. The market lies at the heart of every successful economy, but markets do not function well, left alone. Thus, in the future, it is necessary for states to play a positive role.

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