THE FINANCIAL CRISIS AND THE EMERGING MARKETS

LORENA POPESCU DUDIALĂ
LECT. UNIV. DR., UNIVERSITATEA “CONSTANTIN BRÂNCUŞI” TG-JIU
e-mail :lorena_ucb @yahoo.com

Abstract

The emerging markets emerge and develop in the larger context of the international financial market development "is a consequence of the needs expressed by investors and those who wish to place their financial capital." Thus, to achieve a certain level of saturation economic zones and the lack of attractiveness of gains obtainable in certain markets determine the migration of capital to areas that are or may become interesting in terms of the gains that are achieved by investing in these areas in conjunction minimizing market risk assumed.

Key words: emerging markets, globalization, market embryonic

JEL Classification: F6, F02

1. Introduction

In the context of the new world order and globalization, we are witnessing lately a restructuring and downsizing of the international financial market, with the reorganization of the world economy.

The essence of the current economic paradigm and then develop in emerging markets involves privatization, democratization, reduction of trade barriers and the disappearance of vertically integrated capital markets. The current global economy is characterized by flexibility, innovation and opening markets.

A universally accepted definition and rigorous emerging markets is made difficult due to the complexity and variety of these markets. Such an approach should make it possible to distinguish unambiguously between the concepts developed markets, frontier markets, regional markets, emerging markets, etc.

At the moment, when speaking of emerging markets, we almost automatically think countries like India, China, Mexico, Brazil, Chile, Argentina, etc. But this is only a small portion of the emerging markets. On the other hand, emerging markets category are summarized fledgling stock markets, stock markets old, but in the economy of developing countries, capital markets reopened, etc. So there is a great diversity of situations and a significant dispersion of size, performance and attractiveness of these markets. With a play on words, reads about an emerging country that is "too poor to be rich and too rich to be poor."[1].

Excluding the option to remain with the status of economy "tired", emerging markets have been seen in the situation of not being able to afford to refuse cases, justified or not, repayment of loans, to raise and to descend at will and fiscal barriers to nationalize foreign or foreign-owned businesses. In this way, these emerging markets have had to react rational only way they could do that is to join the global market. Many of these emerging countries have suffered painful failures in this phase to adapt to the new rules of the game. But as many have begun to reform their economies, privatize state-owned large companies or to turn to the International Monetary Fund to restructure debt service. In this way, it was a situation where almost every country on the globe has a market-oriented economy, which is involved in the competition for capital. If we make an overview of these emerging markets, we notice that represent 70% of the area and 85% of the world population, their consumer market is by far the largest, while their gross domestic product represents only 20% of global GDP. There are a number of issues that characterize emerging market issues that single them out as a consistent investment product, well delineated from the other groups.

Among them, the most important are[2]

1. Whilst some emerging countries are considered free market economy, very few of them are comparable with developed countries when it comes to regulations on foreign investment, transparency of financial statements, the free movement of capital, stock markets or maturity restrictions repatriation of dividends or capital gains.

2. Typically, emerging markets rests a higher country risk developed markets; This is because the risks arising in the political hyperinflationary phenomenon or social unrest are relatively common among emerging countries, representing factors accompanying necessarily development process.

3. Given the risks of an investment in this type of market, professional investors will not take unless it is perceived possibility of obtaining high-return associated with these risks. Therefore, it is considered that an annual growth rate of 4% recorded over a period of 5-10 years is justified expectation.

Lately, in addition to emerging market concept emerged the concept of "embryonic market" or "market pioneer" designating an economy where the transition to free market makers did not go off completely and irreversibly levels at which it is assumed that there will be even lower increases were those related to emerging markets. With significant capital flows into emerging flowing, aggressive investors looking for new investment destinations, which are often obscure and with a pronounced degree of underdevelopment. If, at some point, was enough capital investment in the most promising titles of emerging markets, large capital flows that flooded the markets illiquid, very fast leading to an...
overall increase in quotations lately has become more difficult task to achieve positive abnormal returns without taking risks correlated higher.

Therefore, investments tend to have a more pronounced risk character, setting targets as often saving not considered reasonable investment destinations for various reasons (lack of transparency relating to financial reporting, low liquidity market regimes can take a position adverse to investors, etc.). In such circumstances, the capital invested downside risks not directly related to the viability of the investee companies. In this category embryonic markets may be mentioned the following countries: Laos, Cambodia, Vietnam, Myanmar, North Korea, Mongolia, Croatia, Bulgaria, Slovenia, Jordan, Egypt, Lithuania, Oman, Lebanon, Saudi Arabia, Qatar, Kuwait, Morocco Tunisia, Cuba, Papua New Guinea, Ghana, Bangladesh and Paraguay.

When it comes to benefits arising from investments in emerging markets can easily forward a number of arguments.[3]

January. Most times, emerging markets outperformed established countries, although there is no increasing trend evolves continuously, without any correction periods, indicating that they are usually outdated in a relatively short period, with a new appreciation basis;

February. Usually correlations emerging markets with the developed markets are low, indicating thereby that movements in these markets are not directly related to movements in developed markets. Although it is a rare case it may happen that the correlation coefficient is negative, which means that the direction recorded on the market is the reverse on the other. Thus, for emerging markets grow following their own path of development, the introduction of securities in these markets within the international portfolio is an effective way of reducing the risk of this portfolio, and increase its profitability.

March. Recorded growth rates are higher than developed markets emerging countries, the World Bank forecasting an average rate of GDP growth in the emerging countries of 4.9%, almost double that of developed countries. Very important to watch for these increases and their structure, whether attached to exports of goods and services with a low value added products that require continued growth and superior processing.

April. Due to the fact that there is a strong correlation between the growth and profitability of the stock market, strong growth rates and solid fundamentals justified optimistic expectations about a good evolutionary emergente quotations in the markets over a period of 5-10 years

May. Investment funds continuously increase their participation in emerging markets is estimated in this respect that about a quarter of public and private pension funds worldwide plan to increase the share related to investments in emerging markets.

June. Vast majority of financial institutions investing in the shares of the largest companies in emerging markets, a broad range of companies with high growth potential are excluded as investment destinations for the simple reason that they are not big enough to attract the attention of these investors. Without their interest, these small companies are often undervalued, thus creating good opportunities for investors purchasing more aggressive.

July. Accessibility shares offered in emerging markets is rising as these markets are more open to investors through a strict regarding the security of transactions, or the attractiveness of the markets.

Often, some experiments investment lead to the formation of a number of misconceptions related financial securities listed on emerging markets. Thus, many investors believe that emerging markets are risky investments because, in particular, a high degree of uncertainty. This is true only when the investment is realized fully in such markets as in other cases, a portfolio that contains a component of emerging markets will lead to a global risk mitigation through low correlations (even negative), due independent factors differed prints.

2. The effects of the current crisis on emerging [4]

The vulnerability of each state is determined by its dependence on foreign capital inflows to finance the current account deficit and avoid crises in this regard. This trend is highlighted by the S & P (Standard & Poor's) vulnerability in terms of liquidity. Following these criteria, we can determine which countries would be hardest hit by the financial crisis.

Thus, almost all states increased vulnerability lies in Europe, except Lebanon and South Africa. Iceland ranks first in the ranking, with the increased vulnerability, followed by Lebanon, Romania, Latvia and Bulgaria Turcia.Ungaria ranks seven and eight respectively in the ranking. The least vulnerable emerging countries is Chile, as a result of favoralable current account, followed by China, Venezuela, Trinidad, Tobago and Nigeria. Russia is the only country in Europe that is emerging part of the country less vulnerable to an intensification of the global credit crisis.

At the end of the financial crisis, most analysts and international financial institutions predict a marginal impact on emerging markets, speaking even some decoupling between emerging markets and mature markets.

The East European economies

East European economies are strongly affected, while the global crisis caused a drop in exports, limited access to credit and reduced foreign direct investment.

Nice product Gross Estonia decreased by 9.4% yearly during October-December 2013, being the most significant decline in 15 years of this state. Meanwhile, the Hungarian economy contracted by 2%, falling into recession for the second time in two years. Economic growth slowed in the Czech Republic in the same period by 1% and the Slovak GDP growth stood at 2.7%.
Eastern Europe is not the only in this situation. Eurozone recorded in the fourth quarter the strongest economic downturn in 13 years, putting even more pressure on the European Central Bank to cut interest rates. In Eastern Europe, central banks have already entered in a race to reduce interest rates to prevent a severe recession in the region. GDP of countries that make up the Eurozone contracted by 1.5% during October to December 2013 compared to the previous quarter, according to the statistical office of the European Union.

However, the worst performance was recorded by the Baltic countries. Estonia and Latvia have collapsed in the deepest recession, while the lending market freezing significantly reduced the local consumer demand. Latvia's GDP contracted by 10.5% in the fourth quarter.

In Central Europe, Hungary entered recession, while the country's exports have declined significantly amid turbulent[ele]lo Wester markets, eliminating hopes on a quick return to the country.

In the Czech Republic, economic growth slowed sharply in the fourth quarter, after amplification of the global crisis caused a reduction in exports and foreign investment. Country's GDP grew by 1% in October-December from the fourth quarter of 2012, which is the lowest growth rate lately.

Neighbouring Slovakia has registered the lowest growth rate in seven years after the country's GDP advanced by 7% in previous months.

While investors' fears focus on Hungary, Poland and the Czech Republic, the euro is more exposed than any other currency, a slowdown in emerging markets all around the globe.

Loans in Central and Eastern Europe 90% come from banks in the Eurozone. Meanwhile, nearly three quarters of the global emerging economies from the same region, according to data published by the Bank for International Settlements.

"This confirms the views of the market, according to an accident which emerging markets will affect European banks to a much greater extent than the U.S. or Japan," said Paul Meggelyes within JPMorgan.

Of loans worth 4.593 billion dollars (3.640 billion euros) granted by banks in developing countries worldwide, Eurozone banks have lent USD 3.369 billion (2.670 billion), or 73, 4% of the total. In the United States, the percentage is 10.3%, and Japan at 4.8%. Exposure of euro area banks in terms of loans to emerging markets rose from 18.8% of GDP, compared with 3.4% in the U.S. and 5% in most of Japan. In the euro area, the most exposed is Austria, with credit to emerging economies, mostly in Eastern Europe, accounting for 79.6% of GDP. Follow the Netherlands, with a more diversified by region, with loans accounting for 66.4% of GDP.

3. Conclusions

In this paper we highlighted some issues related to emerging markets as a favorite destination of capital in recent time. Making a distinction between the concepts of "emerging market" and "market embryo" I also listed, and the main features that lead to the detection of these specific markets.

Emerging markets represent a sector with a growth rate supported. Development of emerging markets has become a phenomenon. Deep changes in the international financial markets and the globalization have facilitated the development of emerging markets.

Thus, through the eyes of market capitalization, emerging markets are of great diversity, in fact, reveals the degree of development of that market.

With the financial turmoil, on average, emerging markets are more resistant than those developed, due to the risk protection contracts, credit default swaps, which have a very high level in some emerging markets because of the general aversion to risk At this point.

4. Bibliography: