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ЧАСОПИС ЕКОНОМІЧНИХ РЕФОРМ

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KIEVICH A., KIVACHUK V., CHETYRBOK N.

THE WORLD'S CENTRAL BANK IN THE TRAP OF QE

The article analyzes the policy of the Central Bank in developed countries as for questions of monetary stimulation of the global economy; It is justified that the Central Bank of developed countries in the near future will not be able to stop monetarist stimulation and reduce the volume of assets on their balance sheets without serious negative consequences for the world economy. When the Central Bank implements such actions, officials lose the incentive to maintain a stable fiscal policy. In this case, the effectiveness of monetary programs over time is reduced to zero, leading to inflation of the value of financial assets, but not helping the real economy.

Key words: world economy, global crisis, reforms, central banks, quantitative easing.

Formulation of the problem. Many of us have repeatedly heard the phrase "history repeats itself," but it never repeats with absolute precision. And in order to learn a lesson from the past, it is necessary to draw conclusions and clearly understand what is happening in the present. This applies to analysts and strategic investors, to our great regret, because many of them make the same mistakes. And if the last 30 years were prosperous, then they made their assessments and forecasts based on economic well-being. But still, it seems to us, despite the fact that no one can accurately predict the future of the global economy, it is possible already to make some predictions and assumptions.

Analysis of recent research and publications. In this article we used methods: bibliographic analysis of literature and Internet materials, analysis of statistics, study and generalization of the data obtained, experimental-theoretical methods, such as induction and deduction.

The materials for the article were: the article of A.V. Kievich, "The program of the newly elected US president as the embodiment of changes at the macroeconomic level of the global economy," the article of Mikhail Khazin "World forecast for 2017", as well as an analytical review of scientific articles on this topic for 2016 -2017.

The purpose of the article is to analyze the policy of the central bank of developed countries in questions of monetary stimulation of the global economy.

Statement of the main material of the study. Today's talk about the deepening of the

crisis and the possible new depression are perceived by them as a tracing-paper from the model of a similar situation of the past, but in reality the situation in the economy today differs significantly from what it was in the 1930s and in the 2000s . For most, depression means those conditions that were in the 30s of the last century and which are widely described, but since the conditions have changed now, analysts and investors can't imagine depression. They know what she looked like, but they don't know how it really is. It is difficult for them to imagine something they cannot fully understand. But still, it seems to us, despite the fact that no one can accurately predict the future of the global economy, it is possible to make some forecasts and assumptions now. Currently in the world may have started to occur tectonic shifts in the global political system: a British exit from the EU, the victory of Trump and his reforms and so forth, which will directly affect the global economy as a whole. However, one thing remains constant - the growth of American debt, and this process will directly affect much of the global economy [1, p.15].

At present the media are actively discussing the reform of the new US President Donald Trump, in particular the withdrawal from negotiations on the TRANS-Pacific partnership, the revision of the agreement on free trade with Mexico and Canada.

All this is really important, but for some reason almost no one recalls that that on September 12, 2017, the US public debt surmounted a colossal mark of \$ 20 trillion [2].





The figure is really huge, moreover, it is unbelievable, because it turns out that at its maturity every U.S. taxpayer in that case need to pay \$160 thousand and in most cases it is impossible to service that debt [3].

If you look at history, it becomes clear that to a certain point, the U.S. national debt was on more or less acceptable level till the time when in 2000 George Bush came to the power. The President administration has managed to increase its debt burden by almost 2 times, but this means that they has borrowed as much as all the predecessors of Bush combined, including Clinton. The process was already unstoppable, and Obama for 8 last years has decided to repeat the "success" of Mr. Bush and increased the debt from \$10 to \$20 trillion. In fact, this phenomenal increase in debt will have a serious impact on many economic processes around the world. First of all, it concerns the FRS and its plans for normalizing of interest rates. It's good that the regulator finally realized that zero rates will not lead to anything good, but unfortunately it is impossible them to do higher significantly.

If you go back to the 2000s, you can see that the US government then has borrowed an average of under 6%. Obviously, the normalization of interest rates implies the return of these rates just in this area, but how to do it, if then the national debt was of absolutely other. Arithmetic here is very simple: can you imagine what is mean \$ 20 trillion at the rate of 6%? This means that only \$ 1.2 trillion per year will be spent on debt servicing. This, by the way, is 31% of the federal budget. Moreover,

\$ 1.2 trillion per year - this is \$ 15 thousand a year for one family.

Theoretically there are several outputs from that situation:

1) America can bring down the dollar and start paying off debts by printing new dollars, but only at a much lower cost. However, even difficult to imagine what will be the consequences of such a decision.

2) The next option is from the category of fantastic: the US will go to measures of austerity, as, for example, in Greece, and by all means will reduce the national debt. In this case, the US will very quickly become a

country of the third world, and it will be also meaningless to talk about the consequences.

Obviously, the US public debt has already grown to such a level that the problem needs to be solved somehow, but nobody knows how to do it at the moment. Meanwhile, the cost of borrowing has also started to grow, so that the loop continues to tighten. Of course, for a while the process may be as if frozen, but for how long, no one can say now. Let's look at how Mr. Trump will make America great again.

And this all directly affects the real sector of the world economy (and partially upon trade), because the main problem here will be a serious excess of production capacities over sales opportunities and inadequate revenues. Roughly speaking, the entire world economy in the last 30 years was built on the basis of the forecast for constant sustainable growth, while in reality, demand has fallen for 8 years already (official government figures have nothing to do with reality). For some time this process was compensated by the growth of debt, that is, the financial sector took on the risks of producers, but today, when it became clear that emissions in the same volume are not expected, this opportunity for previous support of producers is exhausted.

What does it mean in terms of the consumer? The scale of production will be reduced in two directions:

a) Either part of the production capacity will simply be closed, which will reduce competition and lead to an increase in prices, or:

б) New capacities will be built, but they will be created under a new level of demand - much lower.

From the point of view of prices the conclusion will be the following: the offer of more cheap, but low-grade production will increase; Products are more or less qualitative will grow strongly in price. Roughly speaking, what is now called the "average price segment" will disappear from the shelves, gradually moving to the segment "luxury", and their place will be occupied by low-quality goods for the poor. At the same time, investments in the creation of new capacities (we recall that the previous have not yet fully paid off and "large amounts of debt" hang on



them) will be limited, since it is not very clear how these investments will pay off. The fact is that the "normal" model, in which the pay-back is due to profits arising from the excess of income over costs, has not been working for several decades. More precisely, since the beginning of the 1980s, it has been replaced by a model in which aggregate costs, taking into account credit servicing, are higher than total income, and financial sustainability is supported by the growth of debt (that is, its refinancing). In the conditions of the ongoing crisis, this opportunity will be exhausted, and 2017, perhaps, will be the first year, in which the transition of individual enterprises and industries will begin to a new model. How it will occur, what the consequences will be - we will follow this during the year. Today, it is impossible to answer this question precisely, especially since in different countries and branches this process can proceed in completely different ways [4].

Note that the current idea of a sharp increase the rates in the US was largely predetermined by the desire to quickly destroy the system of debt refinancing, to force the real sector to begin working on a "normal" model immediately and unconditionally. This idea is

understandable, but it has many negative consequences. But still, the general problem has not gone away: most of the constructed capacities are arranged so that their "breakeven point" in terms of sales volume is higher than the opportunities of today's sales. As a result, the overall level of the division of labor will fall, and the process of creating currency zones will receive an additional push. At the same time, some innovative production facilities will be closed completely, because in conditions of falling demand, increasing costs and complication of access to credit, they will become fundamentally unprofitable [4].

In the meantime, we continue to see how the world's largest central banks in 2016, in an effort to accelerate the slow economic recovery, are rapidly buying back assets that support stock and bond prices (and thereby increase their balances at the fastest rate since 2011, when there was a European debt crisis). And today the 10 largest Central Banks of the world owns assets for a total of \$ 21.4 trillion, which is 10% more than at the end of last year, according to data compiled by Bloomberg agency (See picture below) [5].

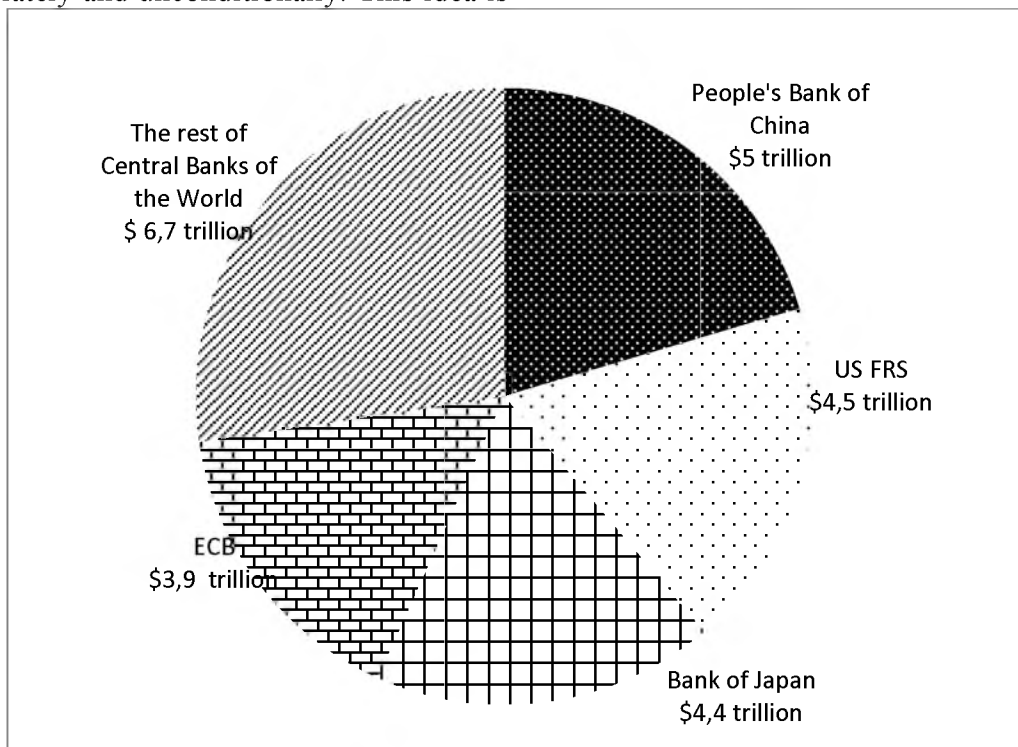


Fig 1. Almost $\frac{3}{4}$ of the combined assets of the World Bank belong to four Regulators

Source: developed by the authors



Meanwhile, there are still disputes is whether the asset purchases of the Central Bank and the persistence of low interest rates probability for the emergence of bubbles, especially in the bond market, because quantitative easing programs are aimed at raising the value of the securities that the Central Bank purchases to reduce bond yields, to stimulate investment and accelerate economic growth. Growth of the CB's assets coincided with the predominantly upward trend in prices for shares and bonds. While the 10 largest Central Banks of the world increased their balances by 265% since mid-October 2006, the consolidated world stock index MSCI All-Country World grew by 19%, and the bond market index of Bloomberg Barclays Global Aggregate Index added 50% [5].

In general, \$ 21.4 trillion - how much is it? \$ 21.4 trillion is 29% of the global economy as of the end of 2015, and this is twice as much as it was in mid-September 2008, when the bankruptcy of Lehman Brothers Holdings Inc. provoked the global financial crisis. This is almost half the value of all debt obligations in the world bond index Bloomberg.

Now almost 75% of the assets of the Central Bank of the world are under the control of politicians in the US, China, Japan and the Eurozone. The remaining six regulators from the top 10 - the central banks of Brazil, Switzerland, Saudi Arabia, Britain, India and Russia - have for an average of 2.5% world assets per each. The rest 107 Central Banks by Bloomberg data, mostly based on IMF data, control less than 13% of assets.

It turns out that with the help of printing money from the Central Bank, Western countries actually finance their government expenditures. It should also be added that, contrary to the widespread misconception that the US Federal Reserve "completed QE" in 2014, the Fed every month continues to reinvest the proceeds from the redeemable assets in the amount of \$ 30-40 billion, thereby restraining any sharp reduction in assets on the balance sheet. And one of the key facts for today is that the Federal Reserve owns 35% of the total volume of bonds with a maturity of more than 5 years. The Fed thus continues to monetize the debt of US.

When the Central Bank implements such actions, officials lose the incentive to maintain a stable fiscal policy. In this case, the effectiveness of monetary programs over time is reduced to zero, leading to inflation of the value of financial assets, but not helping the real economy.

Conclusion and prospects for further research. And for today, as we see it, the Central Bank of the developed countries will not be able to stop monetary stimulation and reduce the volume of assets on their balance sheets, i.e. World CBs are forever trapped in QE and can't go on to reduce this huge amount. This seems to be a forced measure, since it makes it possible to control volatility and maintain certain price levels for assets (that is, at least somehow to maintain the functioning of the global system). Thus, the World Bank may have ended up in a cycle of quantitative easing for good without serious negative consequences for the world economy.

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Кієвич О. В., Кивачук В. С., Четирбок Н. П.

Світові центральні банки у пастці QE

У статті аналізується політика центрального банку розвинених країн з питань монетарного стимулювання глобальної економіки; обґрунтовується той факт, що центральний банк розвинених країн в найближчому майбутньому не зможуть припинити монетарне стимулювання і скоротити обсяги активів на своїх балансах без серйозних негативних наслідків для світової економіки. Обґрунтовано, що коли ЦБ впроваджує такі дії, чиновники втрачають стимул підтримувати стабільну фіскальну політику. У цьому випадку ефективність грошових програм з плином часу скорочується до нуля, що призводить до інфляції вартості фінансових активів, але не допомагає реальній економіці.

Ключові слова: світова економіка, глобальна криза, реформи, центральні банки, кількісне пом'якшення.

Киевич А. В., Кивачук В. С., Четырбок Н. П.

Мировые центральные банки в ловушке QE

В статье анализируется политика центральных банков развитых стран в вопросах монетарного стимулирования глобальной экономики; обосновывается тот факт, что центральный банк развитых стран в ближайшем будущем не смогут прекратить монетарное стимулирование и сократить объемы активов на своих балансах без серьезных негативных последствий для мировой экономики. Обосновано, что когда Центральный банк осуществляет такие действия, чиновники теряют стимул поддерживать стабильную фискальную политику. В этом случае эффективность денежных программ с течением времени сводится к нулю, что приводит к инфляции стоимости финансовых активов, но не помогает реальной экономике.

Ключевые слова: мировая экономика, глобальный кризис, реформы, центральные банки, количественное улучшение.

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Номер пропонує
БЛОГ ГОЛОВНОГО РЕДАКТОРА

Калінеску Т. В.
Трансформуємося! _____ 5

ТЕМАТИЧНІ РУБРИКИ

• **Економіка та підприємництво**

Грахов В. П., Мохначев С. А., Тарануха Н. Л.
Перспективи розвитку девелопмента _____ 6

Калінеску Т. В.
Виявлення й усунення проблем монополізації капіталу _____ 11

Позднякова І. А.
Финансирование деятельности учреждений дополнительного образования взрослых _____ 16

Строганова І. А.
Хеджирование валютных рисков нефинансовыми организациями: состояние и пути развития _____ 22

Павлов К. В.
Неевклидова экономика: проблемы и перспективы развития _____ 30

• **Управління сучасним підприємством**

Бословяк С. В.
Алгоритм комплексной оценки целесообразности инвестирования предприятия _____ 35

Жданова Е. С.
Анализ современных методов определения конкурентоспособности предприятий _____ 44

Меліхова Т. О.
Науково-методичні підходи до визначення ефективності економічної безпеки підприємства _____ 50

• **Фінанси та банківська справа**

Kievich A., Kivachuk V., Chetyrbok N.
The world's central bank in the trap of QE _____ 55

Рабыко І. Н.
Методика оценки управления стратегическим риском банка _____ 60

• **Соціальна економіка**

Асадулліна Н. Р.
Развитие профессиональных компетенций работника в инновационно-образовательной сфере _____ 66

Кошулько О. П.
Женская миграция из стран бывшего Советского Союза в Турецкую Республику _____ 70

Ліхоносова Г. С.
Соціально-економічне відторгнення: виміри депривації та ізоляції _____ 77

• **Економіка регіону**

Павлыш Э. В.
Механизм формирования и использования инновационного потенциала региона _____ 83

Солодилова Н. З., Маликов Р. И., Гришин К. Е.
Процессы генерирования зон институциональных аттракторов в региональной деловой среде _____ 91

• **Міжнародні економічні відносини**

Измайлович С. В.
Управление хозяйственными рисками организаций промышленного сектора республики Беларусь _____ 100

Нурланова Н. К., Расулев А. Ф.
Центральная Азия: новые возможности и архитектура построения национальных экономик _____ 106

НОВИНИ НАУКИ ТА ПРАКТИКИ

Перспективи фінансування науки в вищих навчальних закладах _____ 115

РЕЦЕНЗІЯ

Рецензия на монографию Павлов К. В. Приграничные регионы: теория и практика. –
Ижевск: Изд-во «Шелест», 2017. – 161 с. _____ 116

РЕДАКЦІЙНА КОЛЕГІЯ РЕКОМЕНДУЄ

Нові видання економічної літератури _____ 118

ВІДОМОСТІ ПРО АВТОРІВ

ВИМОГИ щодо змісту та оформлення статей до науково-виробничого журналу
«ЧАСОПИС ЕКОНОМІЧНИХ РЕФОРМ»



Sentence of number
BLOG SHEFF-EDITOR

Calinescu Tetyana
We are transformed! _____ 5

TOPICAL SUBJECTS

• Economics and Business

Grakhov V., Mokhnachev S., Taranukha N.
Development prospects of development _____ 6

Calinescu T.
Exposure and removal the problems of monopolization the capital _____ 11

Pozdnyakova I.
Financing the activities of institutions the adults additional education _____ 16

Stroganova I.
Foreign currency hedging non-financial institutions: status and development _____ 22

Pavlov K.
Non-Euclidean economy: problems and prospects of development _____ 30

• Management of Modern Enterprise

Boslovyak S.
Algorithm of complex evaluation of enterprise investment enterprise _____ 35

Zhdanova E.
Analysis of modern methods of determining competitiveness of enterprises _____ 44

Melikhova T.
Scientific and methodical approaches to determination of efficiency economic safety of the enterprise _____ 50

• Finance and Banking

Kievich A., Kivachuk V., Chetyrbok N.
The world's central bank in the trap of QE _____ 55

Rabyko I.
Methodology for assessing the management of strategic risk of the bank _____ 60

• Social Economy

Asadullina N.
Development of professional competencies of the employer in the innovation and educational sphere _____ 66

Koshulko O.
Women's migration from countries of the former Soviet Union to the Turkish Republic _____ 70

Likhonosova G.
Socio-economic exclusion: measurements of deproduction and isolation _____ 77

• The economy of the region

Pavlysh E.
Mechanism for formation and use innovative potential of the region _____ 83

Solodilova N., Malikov R., Grishin K.
Processes of generating zones of institutional attractors in the regional business environment _____ 91

• International Economic Relations

Izmailovich S.
Management of economic risks the organizations of industrial sector the Belarus Republic _____ 100

Nurlanova N., Rasulev A.
Central Asia: new opportunities and architecture of the building of national economies _____ 106

NEWS SCIENCE AND PRACTICE

Prospects for financing science in higher education institutions _____ 115

REVIEW

Review of the monograph: Pavlov, K. (2017). Border regions: theory and practice
Izhevsk: Shelest Publishing House, 161 _____ 116

EDITORIAL BOARD RECOMMENDS

New edition of economic literature _____ 118

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