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INTERNATIONAL STRATEGIES IN THE GLOBAL GOVERNANCE OF LIQUIDITY CENTRIC CRISIS

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Abstract: *Earlier evolution within the global international financial system crisis, depicted mainly by the functional crisis provocative effects, had recalled for the rethinking of market functionality, in order to reveal, prior to any other kind of strategy, the international institutional weaknesses in the financial system supervision on a global scale. The contemporary imbalanced developments, correlated with a still differentiated monetary and financial political framework, had transformed, progressively, the perceptions of real estate's values toward those levels forced by creditors. Before the last crisis dawn, many financial institutions, determined by a strong competition in the credit sector, had left away the prudential attitudes and had borrowed money from different investors, guarantying the long terms transactions, with short time securities from speculative markets, on setting and fuelling a market bubble. Today, the trend is reversed one, the banking system behaving too prudential and blocking a flexible access of the economic entities to the finances in order to support the economic recovering. In this order, the paperwork is meant to recall for redesigning the risks models, considering not only but the cause-effect diagrams, but also the consistent global vocation of it.*
Keywords: *international institutional management, global governance, financial-monetary system, financial crisis*

Introduction

Throughout the last years the new global and integrative realities of the global economy have been focused toward international monetary and financial system, determining the free capital movements and financial markets integration, the financial system evolution underlying a perennial interdependency in relation with the global economy system. On the background of integration and globalization phenomena, the monetary and financial crisis have eloquently expressed the qualitative evolution of „*real economy → financial flows*" relations, conveying to major gaps between national economies evolutions [Bergsten, 2000]. In this context, the necessity of cooperation processes enhancement on international level, for embracing a common perspective regarding risks assessment and functional supervision of international monetary and financial system, becomes a central idea for international institutions commissioned with responsibilities and duties in this area. Thereby, considering the earliest economic evolutions, the monetary and financial equilibrium becomes the key factor for the global economy balance and, implicitly, one of the major factors toward a globalization successfully process [Tirole, 2002].

The present study is centered in particular on the liquidity risk relevancy, considered as far, the most important pillar of crisis propagation chain, being in the same time the most facile element in determining the market pressure, as an efficient early warning system component as well. Credit risks, currency risks or real values depreciation risks are connected to liquidity lacks, the money need being the first trigger key for the further financial crisis burst. Therefore, the hazardous behavior is mainly determined by the creditor's fear to lose the timely investment withdrawal.

The Liquidity Centric Model Mechanism

The Crisis Mechanisms' Description

The credit risks, currency risks or market values risks are the major triggering keys conducting toward liquidity risks, being as well the main transmission channels in case of functional crisis. The market values bubbles start to develop as being inflated by the credit expansion, exchange rates or real values deformation, into a liquidity crisis. Basically, pursuing to draft this frame into a model, the liquidity dynamics provokes through its free flows the market shocks determined by the maturity game non-conformities, feeding further in its functional spiral the speculative actions or protective investing behavior, conducting finally toward a more or less severe market values correction.

Aglietta M. had observed that „... *the market sensibility seems to be perennial*" at least as long as the financial transactions volume are exceeding in such high levels the volume of real economic transactions [Aglietta, 2005]. If the transactions' maturities, based on speculative rations, are shorted more than the market can support in terms of its liquidity potential, especially in case of real values reappraisal, tending to disconnect the long term perspective to the short perspective, the market will plunge, facing an upward trend of financial position withdrawal. The tendency of closing short or long position on financial markets, will further inquiry for a significant volume of liquidity orders, opened within a short time interval. Conveyed as a contagious affection, the system crisis show off will be inevitable and the market will instantly ask for a "last borrower" to guarantee the market transaction viability [Aglietta, 2005].

As sub-prime crisis previously has shown, considering that there is no individual entity able to manage the market behavior in such comprehensive manner, becomes a must for the global financial system to improve its institutional capability for an immediate "*financial pull*", either based on central banks system support or coordinated by international financial organizations (as *International Monetary Fund* or *Bank for International Settlements*) [Boorman, 2006]. In this order, becomes compulsory, as prior to any other global economic or trade settlements, to redefine, at least on a theoretical level, the mechanism of crisis onset and development. In figure no. 1 the authors concentrated within a suggestive frame, the main components of a systemic crisis from global perspective, considering together the national, regional and international components, under the governance of international financial institutional architecture [Merton, Bodie, 2005].

As methodology, the authors have used the modeling techniques, based on qualitative analytical perspective against the studied phenomenon. All components within the model were accordingly defined under structural and functional perspective, in order to complete designing the qualitative framework. As functional perspective, there were identified and described the major driving forces of financial frame that are essential in their manifestation for the global systemic equilibrium [Aglietta, 2005].

The Liquidity Centric Model and Governance Strategies

Facing this conceptual global risks mechanism, the international strategies should improve the *supervision policies* and instruments for a proper detection of those risks that seem to evolve upon liquidity syncope and to set up a global answer as market intervention, before or even throughout the period of a crisis manifestation [Aglietta, 2005]. The acting behavior within period of crisis, in terms of prevention, crises governance and mitigation of its negative effects, is explained by an ensemble of international policies and strategies, based on four market forces, as were depicted in the figure no.1: *global information symmetrical network* (A), *supervision policies* (B), *intervention mechanism* (C) and *global macroeconomic supervision and adjusting mechanism* (D). [Popa, Ionescu, 2010]

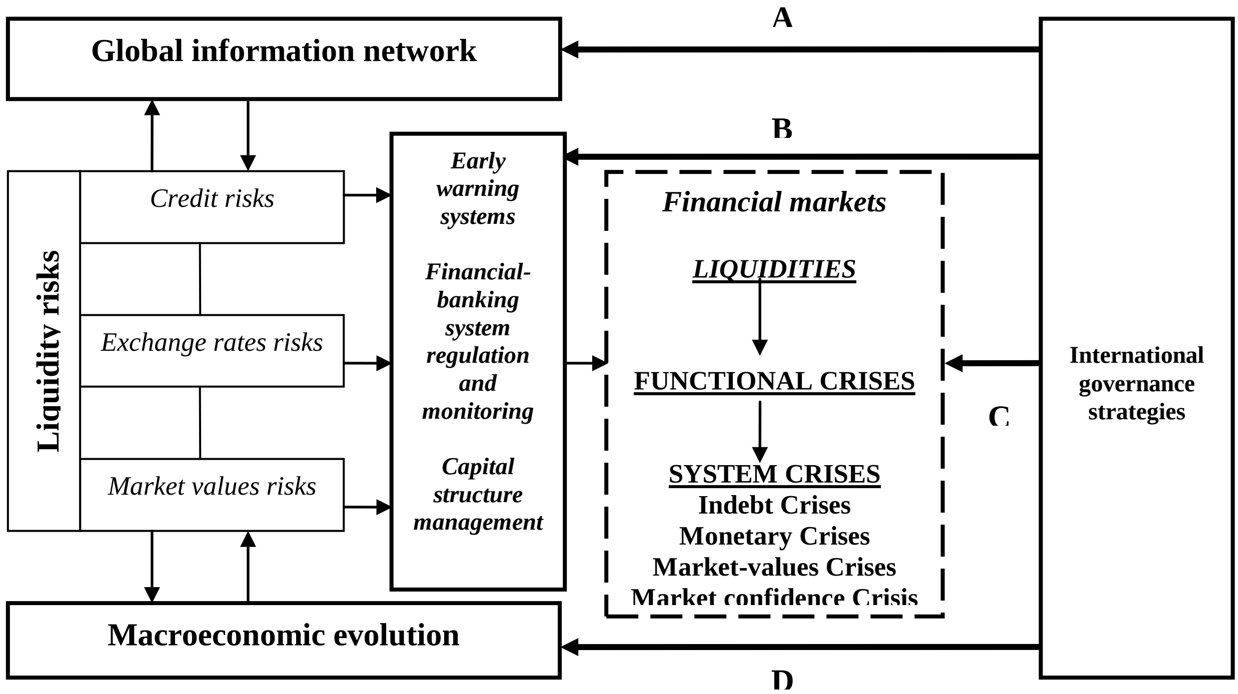

Figure no. 1: *The financial crisis functional model* [adapted after Popa, Ionescu, 2010]

The *preventive attitude* should be more closed to the global variables for warning against market speculative behavior in relation with the preset margins of market values, deforming the economic reasonable judgments. If we understand the financial world as being a *reflexive sum* of speculative behaviors, then the preventive attitudes should combine the supervision attitude with active governance, based on a functional *Central Bank System* global management, unfortunately inexistent as a coherent structure for now [Popa, Grigoruț, Nistor, 2013].

The preventive actions should be considered as a main pillar of the financial system supervision in terms of Basel agreements (as it has been recently modified and completed in Basel III settlements), but in a different perspective. The capital requirements should be harmonized with traditional market values and reallocated into new market risk margins, limiting the techniques of blacking out the market bubbles to be disclosed on internal or external assessment endeavors. Derivates should be limited in credit pledging processes and, in this respect the specialized option market should be distinctively separated from banking system vocation as an intermediary actor of the financial system. In fact, the main reason itself for the contemporary systemic crisis is the miss-understanding of the need for a vivid segregation of real economic rationales against the radical financial markets, led by a hiking risk appetite, in terms of monitoring speculation trends and maturity gaps determined by the financial derivates volatility.

Major Findings on the Model

Thereafter, the less adapted mixture of long run maturities of those securities issued for investment's portfolio purposes versus the speculative derivates market vehicles with a high volatility, seeking to stimulate, in subsidiary, the unsustainable soar of the market values, will often conduct toward a relaxed attitude in banking liabilities management. Once the perception on the financial market will be affected by a down warding yield curve triggered by the productivity leverage, this loose attitude will affect the short run businesses cycle and, on medium term will conduct toward functional debts crisis. On the crossing edge of the real economy needs, calling for direct investments, the financial system will offer just a short mature answer, embedded by a huge appetite for speculation. Due to the information asymmetry and stimulated by macroeconomic positive statistics the market "euphoria" will be settled in the decision making process on a short time, that will be further sharply corrected in the case of liquidity syncope, through a general price falling, determining a cumulative consequence a **functional crisis**. The widening bad loans collection within the international banking system (considered the financial system sensibilities' collector and the central element of the weakness chain), together with the liquidity over spilling and scarcity perception incentive, will finally conduct toward a **systemic crisis**. The banking system major role and responsibility in a crisis moments is to guarantee the loans and the deposits with long term values – securities, mortgages or liquidities – but not on the speculative basis as nowadays. In this new context, the banking financial system should be insulated from volatile or inconsistent market actions and not encouraged to act itself as a major speculative agent on short run maturities markets. Considering the contagious need for liquidity within market perception imbalances, we can state that a functional crisis will be easily able to transform itself into a systemic crisis, just interfering in this chain with the banking system weaknesses [Soros, 2008].

The proper solution for global financial system problems is to reinvent the solid credit basis seeking for banking system responsibility, adapting their capital structure to the real market values high volatility, but with no interferences with speculative derivates and less pledged with the short term maturity financial markets. The Basel agreements (as Basel III Accord already has drafted) should redefine the capital optimum structure considering the insulated perspective of the banking system itself as a loan and deposit cautioner, unlikely a speculator of investors' money. The return to the financial basis theory about the primordial role of the banking system is the most important stage toward systemic simplicity and operational financial functionality as an updated requirement of the global economic world [Soros, 2008].

The international banking system governed by the national authorities' acts as a major connection of the market financial transactions, refereeing the game between real economy needs and speculative tendencies of the financial markets. Thereby, for improving the crisis prevention and response, is necessary to build a coherent trilogy, separately identified trough three distinct level of market action, market governance and policy framework, as follows: <"*International Banking System*" ↔ "*Central Bank System*" ↔ "*International Financial Institutions*">. These three systems working together could assure the sustainable stability of international monetary-financial system, better than are doing for now, as all the institutional element would be defined on global level. In this perspective the financial intermediation actions should be attributed to an International Banking System - "healthy" returned to the primary meaning of credit operations - and the governing policies should be assigned to a Central Bank System, in this manner the entire mechanism being politically harmonized by a coherent international institutional architecture as a cautioner responsible for global equilibrium [Popa, Beizadea, 2010].

Conclusions

The immediate priority should be the dissemination of the theoretical and statistical information about the dynamics of the economic and financial integration and globalization processes, in order to determine a set of "key" indicators in new economic growth models, for describing in a better manner the new architecture of the international financial and monetary system [Newlands , Hooper, 2009]. The fundamental conclusion derived from the analysis of the international financial intermediation sector will underline the need for a clear distinction between the conceptual perspective of the monetary and financial dimensions. It is not an accident if "*the financial-monetary system*" should contains a hyphen, thus will be accurately reflected the major conceptual boundaries between these segments, despite the tendency to consider them simple categories of the same phenomenon [Popa, Ionescu, 2010]. The deregulation and financial integration does not require the inclusion of both in a single concept (generically named "*financial system*"), but rather involves their deeper separation, the perpetuation of confusions related to the dilution of these two conceptual dimensions in a single phrase, being able to stimulate further the imprudent attitudes of the markets [Popa, Ionescu, 2010].

Furthermore, analyzing the major value theories in relation with the relevance of the financial intermediation system in the point as main „tensions' collector" within international monetary-financial system, it has been opined in favor of the idea that, in most cases, due to the marginal propensity to consumption, the credit can distort the perception of social and human values, thus "diminishing" the risk institution and "camouflaging" the perception of the real social and human values [Popa, Beizadea, 2010]. The international monetary-financial system functional reform, in the manner of ensuring a sustainable overall equilibrium, must have, as its starting point, a new theory of value that, before improving the market risk appraisal models, should be able to give a correct formula for the comparison and the assessment of market values in relation to the true values of the economic and financial assets and liabilities.

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