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WORLD FINANCIAL MARKET: CURRENT SITUATION AND ANALYSIS OF FINANCIAL CENTERS

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A R T I C L E I N F O.

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Abstract

This study explores the intricate relationship between financial markets and interest rates, examining the multifaceted ways in which changes in interest rates impact various aspects of the global financial landscape. The research aims to provide a comprehensive analysis of the dynamic interactions between these two critical components, highlighting their interrelations and implications for economic stability and investment strategies. The investigation begins by exploring the primary role of interest rates as a key determinant of borrowing costs affecting both consumers and businesses. It examines how changes in interest rates can stimulate or hinder economic growth, considering the complex mechanisms through which these changes influence consumer spending, corporate investments, and overall market sentiment. The study also investigates the dependency of private sector loans issued by banks on interest rate fluctuations. Additionally, the research delves into the role of financial markets as a barometer of economic health and a transmission channel for interest rate changes. Furthermore, the study evaluates the effectiveness of central banks' interest rate policies as a tool for monetary control and assesses the challenges they may face in managing a complex and interconnected global financial system.

Introduction:

The global financial market is part of the international capital market, encompassing the total demand and supply of capital from creditors and borrowers in various countries. It is crucial to highlight the interconnection between financial markets and economic growth, as the primary principle of financial market existence is to accelerate economic growth. We attempt to explain the relationship between financial markets and economic growth using a simple example (investments). The mechanism of interdependence between economic growth and investments (investments in the form of financial instruments) is described by Nobel laureate P. Samuelson as the "accelerator principle" as follows: [1]

The growth of real GDP leads to an increase in real investments, which in turn leads to further GDP growth. The important aspect of this principle is that real investments represent an increase in the value of real capital (buildings and structures, machinery, and equipment) and production reserves. Hence, it is clear that an increase in investments made in real capital using financial instruments (securities) raises their value, leading to an increase in investments in the form of financial instruments, proving the principle of "equivalence between financial instruments (securities) and their real basis (real capital)" and demonstrating the interconnection between economic growth, investments, and financial markets. Thus, the financial market acts as a driving force for the formation of a country's GDP and ensures economic growth. The share of countries in the global financial market reflects their economic power and influence on other countries. According to many annual reports and articles, the total value of the global financial market exceeds 230 trillion USD today [2].

In the context of a modern market economy, global and regional financial centers ensure the accumulation of various local and foreign financial institutions in a specific location based on a well-thought-out set of economic-financial, legal-normative mechanisms driven by material-economic interests. As a result, they increase the types of assets and services offered in the country's financial market, developing a sophisticated infrastructure with economic stability and innovation. The intense competition in a financial market formed through the accumulation of financial institutions leads to an increase in the quantity and quality of services provided based on consumer demand. Several economists who have studied the development characteristics of the financial sector in the global economy have attempted to highlight the unique features of global, international, regional, and local financial centers.

Literature Review:

According to L.N. Krasavina, global financial centers represent the concentration or centralization of international financial flows and large-scale operations in relatively profitable sectors in a specific location. Historically, they emerged based on national markets, and later on the global currency, credit, stock, and gold markets. Therefore, global financial centers include all sectors of the financial market [7]. A.V. Novikov and I.Y. Novikova based the definition of financial centers on three approaches [3]. Firstly, functionally, financial centers are a complex of financial and advisory services. Secondly, from an institutional perspective, they are a system of financial institutions that conduct financial operations.

The third approach allows for a more precise definition of L.N. Krasavina's concept of international financial centers. According to V.S. Utkin, for financial centers to be considered international today, they must possess at least the following characteristics [4]:

- Firstly, the economy of the country where the center is located must be integrated into the global economy, ensuring stable economic growth based on a stable currency and effective financial policies.
- Secondly, the center must have a liberal tax and legal system that does not impede financial operations and investments, enabling efficient allocation of resources.
- Thirdly, the financial center must have a developed financial infrastructure, including a banking, stock exchange, and insurance system with effective supervision [5].

Based on our analyses, major international financial centers are located within the main time zones of the world, with New York, London, Zurich, Hong Kong, Singapore, Tokyo, Shanghai, and Seoul being the largest financial centers. The competition between financial centers is particularly intense within their respective time zones.

In 2018, although the Global Financial Centres Index (GFCI) indicator remained relatively stable worldwide, only 10 out of the 30 major financial centers improved their ratings. Our research indicates that since the GFCI indicators were first published in 2007, Hong Kong and Singapore have been recognized as major global financial centers following New York and London. Additionally, the financial development and competitiveness of Hong Kong and Singapore are almost identical, as determined by our analyses [6]. This indicates the necessity of studying the mechanisms of establishing international relations and ensuring regional and financial stability for rapid financial center development in cities like Hong Kong and Singapore to aid in the economic development of our country.

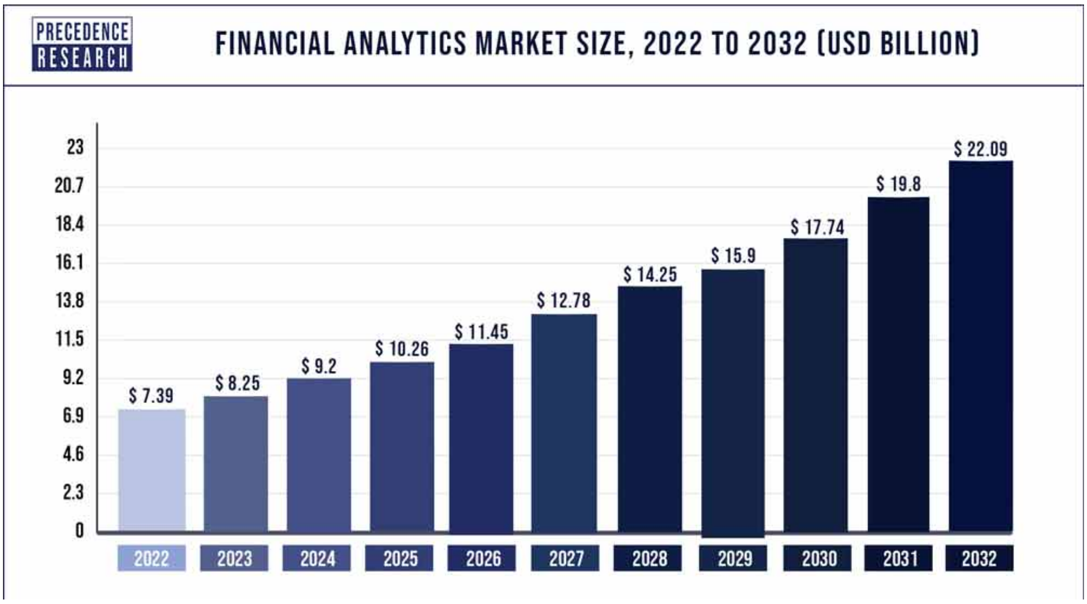
Analysis and Results:

Analyzing the status of financial centers by region, the ratings of the main five financial centers in Western Europe, namely London, Frankfurt, Paris, Geneva, and Luxembourg, have either decreased or remained unchanged in recent years. The ratings of financial centers in Eastern Europe, such as Almaty, Istanbul, and Prague, have improved, while Moscow's rating has dropped to 88th place.

In 2018, out of the 10 major financial centers in the Asia-Pacific region, 8 (Hong Kong, Singapore, Shanghai, Tokyo, Beijing, Sydney, and Shenzhen) saw their ratings decrease or remain unchanged compared to the previous year, while the ratings of financial centers like Melbourne, Qingdao, Kuala Lumpur, and Wellington increased. Financial centers in the Middle East and Africa, such as Dubai, Abu Dhabi, Johannesburg, and Casablanca, are improving their ratings. The ratings of financial centers in North America, such as Boston, Washington, Toronto, and New York, have remained relatively stable, while Montreal's rating increased by 32 points, moving from 24th to 18th place [7].

The ratings of financial centers in Latin America show instability. The ratings of financial centers in Sao Paulo and Rio de Janeiro, Brazil, have slightly decreased, while the ratings of Mexico City and Panama City have increased, climbing 1 and 8 positions, respectively, in the GFCI. Offshore financial centers [11] continue to regulate their regions and compete for their status. As a result, the ratings of international financial centers like the separate administrative units of the United Kingdom and Northern Ireland, specifically the Channel Islands (Guernsey, Jersey, Sark), the Isle of Man, and other UK-dependent territories (14 offshore centers in 4 territories listed in the GFCI) are declining. It is important to consider the changes in the competitiveness of financial centers when assessing their stability. Identifying the stability of financial center competitiveness involves two main criteria: an increase in the differences in expert assessments of the centers and increased volatility in indirect factor indicators.

Based on these two criteria, financial centers are categorized as stable, dynamically changing, or unpredictable. Our analyses indicate that financial centers such as London, New York, Singapore, Hong Kong, and Seoul are stable in terms of competitiveness. In our opinion, it is advisable to use the experiences of Southeast Asian countries to ensure the stable and rapid development of our financial market, liberalize international financial relations, and ensure the innovative development of these sectors.



The global financial analytics market size was estimated at USD 7.39 billion in 2022 and it is expected to hit around USD 22.09 billion by 2032, growing at a CAGR of 11.57% during the forecast period from 2023 to 2032. [8]

Conclusion and Recommendations:

The relationship between financial markets and interest rates is one of the critical financial structures. These structures are interdependent and vary in their impact based on financial system reforms, the country's economic conditions, and other indicators.

The results of the study indicate that changes in interest rates can either stimulate or hinder economic growth. These changes affect consumer spending, corporate investments, and overall market sentiment. Additionally, the study examined how interest rate changes are linked to the loans provided by banks to the private sector. Central banks' interest rate policies can be an effective tool for managing financial stability and investment strategies, but the complex and interconnected nature of the global financial system can present challenges.

Recommendations:

1. Developing Financial Markets: It is essential to enhance the use of economic and financial models to better understand the dynamics between financial markets and interest rates. These models should be tailored to the characteristics of different countries and regions.
2. Central Bank Policies: Central banks should adopt more flexible approaches in managing interest rates. This allows for quick responses to changing economic conditions and helps maintain financial stability.
3. International Cooperation: Strengthening cooperation between international financial institutions and central banks is necessary to ensure global financial stability. This cooperation helps better manage the interactions between financial markets and interest rates.
4. Innovations and Technologies: Improving the efficiency of financial markets can be achieved by developing financial technologies and innovations. This creates new investment opportunities and enhances the quality of financial services.
5. Research and Monitoring: Regularly studying and monitoring the relationship between financial markets and interest rates is essential. This allows for a flexible and effective economic policy.

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