

---

# V. ФІНАНСИ, БАНКІВСЬКА СПРАВА ТА СТРАХУВАННЯ

---

УДК 336.7

## EXPANSION OF THE CENTRAL BANKS BALANCES OF DEVELOPED COUNTRIES AS THE MAIN INDICATOR OF LOOMING GLOBAL CRISIS

A. KIEVICH, PhD, Docent;  
M. BUHTIK, Candidate of Economic Sciences, Docent;  
M. SAMOHOVETS, Candidate of Economic Sciences, Docent  
(Polesky State University, Republic of Belarus)

**Annotation.** *The purpose of the paper is to study the balance sheets of the developed countries central banks as the main indicator of the global crisis. **Methodology of research.** The objectives of the article implemented by using the following general and specific research 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. **Findings.** The article analyzes the growth of the debt burden in developed countries and its impact on the policy of their central banks (CB) in matters of monetary stimulation of the global economy. **Practical value.** Substantiates the fact that the Central Bank of developed countries in the near future will not be able to stop monetary stimulation and substantially reduce the volume of assets on their balance sheets without serious negative consequences for the world economy.*

**Keywords:** world economy, debt burden, central banks, quantitative easing (QE), global crisis.

**Introduction.** Unfortunately, now it became clear that the leadership of the US Federal Reserve and the central banks of developed countries of the world incorrectly assessed the effectiveness of their political measures taken after the 2008 crisis broke out (the Central Bank of developed countries of the world made a bid for a cocktail of zero percent and expansion of the balance). And as of August 1, 2017, the Fed, the Bank of Japan and the ECB have assets worth \$ 13.8 trillion. Because of this, the global financial markets formed a number of areas of the global financial system, which are at extreme levels in their entire history. These are and high ratings for a number of assets, a unique size of balances of the world's CBs, the level of arrears, long-term minimum interest rates

and the level of irrational play that changes populist political support around the world. That is, for today, many shocking and completely unimaginable actions of central banks of developed countries have driven the markets into such a shock that for markets is easier to accept CB's actions without even thinking than think about.

**The analysis of recent research and publications.** Materials for writing present article were: such articles by prof. Kievich A. V. as “The program of the newly elected US president as the embodiment of changes at the macroeconomic level of the global economy”, “World Central Bank in the trap of QE, ” as well as an analytical review of scientific articles for 2016 and 2017 and Internet materials on this subject. 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.

**Purpose.** The purpose of the paper is to study the balance sheets of the developed countries central banks as the main indicator of the global crisis.

**Result.** At the moment, tectonic shifts in the world political and economic systems probably have started in the World: the withdrawal of the United Kingdom from the EU, Trump's victory and his reforms, the aggravation of geopolitical tensions which will certainly affect the global economy in whole. However, one thing remains unchanged – **the growth of the debt burden in developed countries** and this process will directly affect much in the global economy [1].

In the meantime, the media is actively discussing in a sense the geopolitical recession in the World (the last serious confrontation between the United States and the DPRK), economic issues are receding into the background and for some reason practically no one saying that 12.09.2017 the US national debt has overcome a colossal mark of \$ 20 trillion. The figure is really very big, moreover, it is simply unbearable, because for every taxpayer the US accounts for \$ 160 thousand, and it is simply impossible to service such a debt in most cases [2].

In fact, this phenomenal growth of public debt has and will have a serious impact on many economic processes around the world. First of all, this applies to virtually all areas of the Fed's activities, and especially its immediate plans for normalizing interest rates and reducing its balance. It's good that the US regulator finally realized that zero rates do not lead to anything good, but till it is not yet possible to raise them substantially.

If you go back to the 2000s, you can see that then the US government borrowed an average at a rate 6 % per annum. Obviously, the normalization of interest rates by the Fed implies the return of these rates just at this limit, but how to do it, if then the national debt was of absolutely different proportions. Arithmetic here is very simple: you can imagine what \$ 20 trillion at a rate of 6 %. This means that \$ 1.2 trillion will be spent on servicing this debt per year. This, by the way, is 31 % of the US federal budget. Moreover, \$ 1.2 trillion per year means \$ 15 thousand per year for one American family [3].

In theory, from this situation, there are predictably acceptable, perhaps, only two solutions:

1. The United States can bring down the U.S. dollar and to begin to repay their debts by issuing new dollars, only this time with a much lower real cost. However, what will the consequences of such decisions, it is even difficult to imagine.

2. Another option is fantastic: the US will resort to austerity measures, as, for example, in Greece, and will by all means accelerate the reduction of public debt. In these conditions, the US will very quickly become a country of the third world, and in that case it is also pointless to talk about any consequences.

Look at what is happening now in Europe..? And in Europe everything is the same as everywhere. The quantitative easing program from the ECB, known as QE, was also aimed at debt relief for countries with excessive debt. QE was launched in March 2015. Within the framework of this program the Central banks of the Eurozone countries annually sent 1.4 trillion euro to purchase government debt. The tool itself looks symmetrical: each Central Bank buys government debt in proportion to the size of the country, but it only at first sight QE looks equitable [4].

In fact, the debts of southern European countries are mostly purchased from foreign holders and that means that capital leaves the Euro zone. For example, Banco de España buys state bonds of Spain around the World, thereby reducing the country's debt to private creditors. To this end, it requests the Central banks of other Eurozone members, in particular the German Bundesbank and, in some cases, the Dutch Central Bank, to credit a payment order sellers of bonds in Germany and the Netherlands. Often, if the sellers of Spanish government bonds are outside the Eurozone, Banco de España asks the ECB to credit the payment order. In the latter case, this often leads to triangular transactions, with the result that the sellers transfer money to Germany or the Netherlands, to invest in securities with fixed percentage. Thus, the German Bundesbank and the Dutch Central Bank should credit not only direct payment orders from Spain, but also indirect, caused by the purchase by the Bank of Spain of debts in third countries. For GIPS countries these transactions are simply gorgeous. But if you imagine in theory that these countries will exit the Eurozone, it is likely that their Central banks will go

bankrupt, as most of the debt is denominated in euros. Meanwhile, their requirements to appropriate States and banks will be converted into a new depreciating national currency, and payment requirements in the system TARGET2 then will completely evaporate. In that case the Bundesbank on par with the Dutch Central Bank can only hope that the other survivor central banks would take over a part of the total losses. Thus, the system TARGET2 also contributes to the deepening debt crisis in the Eurozone, as it allows the freedom to redirect funds from peripheral countries to Central Europe.

The situation continues to worsen, as the system was the cause of creation the serious trade imbalances among countries that became visible only after the crisis in 2008 that triggered a banking crisis, in result of it were exposed the problem areas of the financial system of the Eurozone in whole. For example, if Greece decides to exit the Eurozone and to pay off the debts in new drachmas, the ECB will have to print additional 71 billion euros to cover the budget gap otherwise the rest of the countries of the monetary Union will have to assume the burden of payment of the Greek debt. If Italy decides to exit the Eurozone, the ECB will have to find already 386,1 billion euros. Thus, the countries were tied together by a huge debt and this system is now organized so that nobody can go out of it painless.

If you look at TARGET2 balance sheets for January 2017, you can note, for example, that the outflow of capital has largely stabilized, but the imbalance in Spain has reached a new record. For Italy and Spain, the QE program contributed to the outflow of capital. In the end, the aggregate debt of central banks of Greece, Spain, Italy, and other countries of the Eurozone to the Bundesbank is constantly growing. Thus, TARGET2, in fact, is a kind of plan for saving a single Europe, since in the event of the escape of at least one of the countries from the currency bloc, the problems will be catastrophic, as was mentioned above [4].

Let's look at one more developed country – Japan. The Bank of Japan has increased its balance more than in the US. The balance of the Bank of Japan is almost five times greater in relation to GDP. And it is still growing. The country of the rising sun has become a country of growing balance of the central bank [5].

As you can see, Japan as a percentage is with the biggest debt burden, which, however, does not

prevent investors to perceive it as a quiet harbor and even give money to the Japanese government for free. Most recently, Japan placed two-year bonds worth \$ 4 billion the yield was record low – minus 0.149 %. It is obvious that while negative returns are a reflection of the fact that global investors do not expect the completion of the monetary tsunami that hit the world after the financial crisis of 2008 from the world's largest central banks. And today, on a global scale, the volume of public debts with only negative returns is about \$ 9 trillion [6].

Obviously, today the debt load has grown (here we do not talk about corporate sector debts) to such a size 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 begun to grow, so that the loop continues to tighten. Of course, for a while the process can be as if frozen, but for how long, no one can say now.

At the same time, it should be noted that this all directly affects as the real sector of the US economy well as the world economy (and, in part, trade) because the main problem will be a serious excess of production capacity over sales opportunities and insufficiency of earnings. Roughly speaking, the entire global economy in the last 30 years has been built on the basis of the forecast of constant steady growth, while in reality, the demand has fallen and continue to fall 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 of previous support of producers turns out to be exhausted.

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

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

b) or new capacities will be built, but will be created already under a new level of demand – much lower.

By the way, investments in the creation of new capacities (we recall that the old ones have not yet fully paid off and large amounts of debt are “hanging” on them) will be limited, as it is not very clear how these investments will pay off. To-

day, it is impossible to answer this question precisely, especially since in different countries and branches this process can proceed in completely different ways [3].

Let us also note that the current idea of a sharp increase in the rate in the United States was largely predetermined by the desire to quickly destroy the system of debt refinancing, to force the real sector to start working on a "normal" model immediately and unconditionally. This idea is understandable, but it has many negative consequences. Besides the general problem has not gone away: most of the constructed capacity is arranged so that their "breakeven point" in terms of sales volume is higher than their sales opportunities for today. 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 [3].

In the meantime, we continue to observe how the world's largest Central Banks, since 2016, in an effort to accelerate the slow economic recovery, are rapidly buying back assets that support the prices of stocks and bonds (and thereby increase their balances the fastest pace compared to 2011, when the European debt crisis happened). And as of August 1, 2017, the Fed, the Bank of Japan and the ECB have assets worth \$ 13.8 trillion in addition both the assets of the Bank of Japan (\$ 4.75 trillion) and the assets of the ECB (\$ 5.1 trillion) exceed assets of the US Federal Reserve (\$ 4.3 trillion) for the third consecutive month [6].

It turns out that now, with the help of the emission of new money from the side of

the world's Central Banks of the Western project, the developed countries actually finance their state expenditures. It should also be added that, contrary to the widely spread misconception that the US Federal Reserve finished QE in 2014, the Fed continues to reinvest the proceeds from the repaid assets for \$ 30-40 bn. each month, thereby restraining any drastic reduction assets on the balance sheet. And one of the key facts for today is that the Fed owns 35 % of the total volume of bonds with a maturity of more than 5 years. So the Fed continues to monetize the US public debt.

At the same time, as many analysts assumed, September 20, 2017, the Fed announced a reduction in the program for the purchase of assets, which it made during and after the financial crisis.

Since October 2017, the US Federal Reserve will stop reinvesting all the money it receives when it comes to the maturity of its assets [8]. As a result its balance of \$ 4.3 trillion will gradually decrease. However, the Fed has not clarified the situation as to what the endpoint of the balance should be. But this is an important question. There are strong arguments in favor of the fact that the balance will remain large, since most commentators consider a large balance, which is the result of quantitative easing (QE) as an extreme economic stimulus. And the statement that the balance stimulates the economy has not yet been confirmed. In theory, this is possible and works, but in practice it all looks quite different.

However, when the Central Bank carries out similar actions, even with obvious symptoms of looming problems, the 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 unrestrained growth in the value of financial assets, but not helping the real economy.

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. 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 support the functioning of the global economy). Thus, the World Banks, perhaps, have been forever in the cycle of quantitative easing without serious negative consequences for the world economy, since with their direct help formed a number of areas of the global financial system, which are at extreme levels in their entire history. This includes assessments in many classes of assets, the unique size of the world's balance sheets, debt levels, multi-year minimum interest rate accounting, and even the level of irrational play that changes populist political support around the World. And if the global crisis occurs relatively soon (within the next 1-2-3 years), it will be quite difficult to look back and pretend that nothing of this happened. It is also worth noting that an important role in the emergence of the crisis is given to the element of unpredictability, and history teaches that another crisis may well catch us all unawares.

**Conclusions and further research.** The situation in the world economy and the world of fi-

nance only seems stable at first glance, the risk of a global recession remains very high at this stage, moreover, almost all conditions for a new financial collapse are created. The current macroeconomic environment in the developed world economies is increasingly reminiscent of the situation in the 1930s, when a number of large economies faced the problem of 3D (debt, demography and deflation).

And for today, as we see it, the Central Bank of developed countries will no longer be able to stop monetary stimulation and reduce the volume of assets on their balance sheets. This, it seems, is already a forced measure, since it makes it possible to control volatility and maintain certain price levels for assets, i.e. even though somehow support the functioning of the global economy. But history teaches that another crisis may well catch us all by surprise.

#### REFERENCES

1. Kievich, A. V. (2016). Programma vnov' izbrannogo prezidenta SShA kak olicetvorenije izmenenij na makroekonomicheskom urovne global'noj jekonomiki [The program of the newly elected US president as the embodiment of changes at the macroeconomic level of the global economy]. *Sovremennye aspekty jekonomiki – Modern aspects of the economy*, 11 (231), 12–24 [in Russian].
2. Kievich, A. V. (2017). Mirovye CB v lovushke QE [World Central Bank in the trap of QE]. *Proceedings from VIII Mezhdunarodnaja nauchno-prakticheskaja konferencija po voprosam bankovskoj jekonomiki, g. Pinsk (27–28 April 2017 g.)* – *The VIII international scientific and practical conference in the issues of banking economics “Banking system: sustainability and development prospects”*. (pp. 72–76). Pinsk : Polesky State University [in Russian].
3. Khazin, M. Mirovoj prognoz na 2017 god [World forecast for 2017]. Retrieved from <http://khazin.ru/articles/11-analitika-i-prognozy/29184-mirovoi-prognoz-na-2017-god>. (accessed 22 January 2012) [in Russian].
4. Analiticheskij obzor vestifinance.ru [Analytical review vestifinance.ru]. (n.d.). <http://www.vestifinance.ru/articles/91640>. Retrieved from <http://www.vestifinance.ru/articles/91640>. (accessed 29 July 2017) [in Russian].
5. Analiticheskij obzor vestifinance.ru [Analytical review vestifinance.ru]. (n.d.). <http://www.vestifinance.ru/articles/94526>. Retrieved from <http://www.vestifinance.ru/articles/94526>. (accessed 29 July 2017) [in Russian].
6. Analiticheskij obzor vestifinance.ru [Analytical review vestifinance.ru]. (n.d.). <http://www.vestifinance.ru/articles/94076>. Retrieved from <http://www.vestifinance.ru/articles/94076>. (accessed 29 July 2017) [in Russian].
7. Analiticheskij obzor vestifinance.ru [Analytical review vestifinance.ru]. (n.d.). <http://www.vestifinance.ru/articles/91268>. Retrieved from <http://www.vestifinance.ru/articles/91268>. (accessed 29 July 2017) [in Russian].

#### REFERENCES (IN LANGUAGE ORIGINAL)

1. Киевич А. В. Программа вновь избранного президента США как олицетворение изменений на макроэкономическом уровне глобальной экономики / А. В. Киевич // *Современные аспекты экономики*. – 2016. – № 11 (231). – С. 12–24.
2. Киевич А. В. Мировые ЦБ в ловушке QE. / А. В. Киевич // *Банковская система: устойчивость и перспективы развития : сборник научных статей VIII международной научно-практической конференции по вопросам банковской экономики, г. Пинск (27–28 апреля 2017 г.)* – Пинск : Полесский государственный университет, 2017. – С. 72–76.
3. Хазин М. Мировой прогноз на 2017 год [Электронный ресурс] / М. Хазин. – Режим доступа: <http://khazin.ru/articles/11-analitika-i-prognozy/29184-mirovoi-prognoz-na-2017-god> (дата звернення: 22.01.12). – Назва з екрана.
4. Аналитический обзор vestifinance.ru [Электронный ресурс]. – Режим доступа: <http://www.vestifinance.ru/articles/91640> (дата звернення: 29.07.17). – Назва з екрана.

5. Аналитический обзор vestifinance.ru [Электронный ресурс]. – Режим доступа: <http://www.vestifinance.ru/articles/94526> (дата звернення: 29.07.17). – Назва з екрана.
6. Аналитический обзор vestifinance.ru. [Электронный ресурс]. – Режим доступа: <http://www.vestifinance.ru/articles/94076> (дата звернення: 29.07.17). – Назва з екрана.
7. Аналитический обзор vestifinance.ru. [Электронный ресурс]. – Режим доступа: <http://www.vestifinance.ru/articles/91268> (дата звернення: 29.07.17). – Назва з екрана.

**О. В. Кієвіч**, кандидат економічних наук, доцент; **М. І. Бухтик**, кандидат економічних наук, доцент; **М. П. Самоховець**, кандидат економічних наук, доцент (Поліський державний університет, Республіка Білорусь). **Розширення балансів центральних банків розвинених країн як головний індикатор глобальної кризи.**

**Анотація.** Мета статті полягає в дослідженні балансів центральних банків розвинених країн як головного індикатора глобальної кризи. **Методика дослідження.** Вирішення поставлених у статті завдань здійснено за допомогою таких загальнонаукових і спеціальних методів дослідження: бібліографічного аналізу літератури та інтернет-матеріалів, аналізу статистики, вивчення та узагальнення отриманих даних, таких експериментально-теоретичних методів, як індукція та дедукція. **Результати.** У статті аналізується зростання боргового навантаження в розвинених країнах світу та його вплив на політику їх центральних банків (ЦБ) у питаннях монетарного стимулювання глобальної економіки. **Практична значущість результатів дослідження.** Обґрунтовується той факт, що ЦБ розвинених країн у найближчому майбутньому не зможуть припинити монетарне стимулювання та істотно скоротити обсяги активів на своїх балансах без серйозних негативних наслідків для світової економіки.

**Ключові слова:** світова економіка, боргове навантаження, центральні банки, кількісне пом'якшення, глобальна криза.

**А. В. Киевич**, кандидат экономических наук, доцент; **М. И. Бухтик**, кандидат экономических наук, доцент; **М. П. Самоховец**, кандидат экономических наук, доцент (Полесский государственный университет, Республика Беларусь). **Расширение балансов центральных банков развитых стран как главный индикатор надвигающегося глобального кризиса.**

**Аннотация.** Цель статьи заключается в исследовании балансов центральных банков развитых стран как главного индикатора глобального кризиса. **Методика исследования.** Решение поставленных в статье задач осуществлено с помощью таких общенаучных и специальных методов исследования: библиографического анализа литературы и интернет-материалов, анализа статистики, изучения и обобщения полученных данных, таких экспериментально-теоретических методов, как индукция и дедукция. **Результаты.** В статье анализируется рост долговой нагрузки в развитых странах мира и его влияние на политику их центральных банков (ЦБ) в вопросах монетарного стимулирования глобальной экономики. **Практическая значимость результатов исследования.** Обосновывается тот факт, что ЦБ развитых стран в ближайшем будущем не смогут прекратить монетарное стимулирование и существенно сократить объемы активов на своих балансах без серьезных негативных последствий для мировой экономики.

**Ключевые слова:** мировая экономика, долговая нагрузка, центральные банки, количественное смягчение, глобальный кризис.