

STABILITY OF THE UKRAINIAN BANKING SYSTEM IN CURRENT CONDITIONS

The essence and background of the international financial instability are studied; the practical recommendations as to increasing of the stability of the Ukrainian bank system in current conditions are determined.

Keywords: global financial system, international financial instability, stability of the Ukrainian banking system, financial crises.

Current state finance of most countries shows that one of the most dangerous phenomena for individual countries to the global financial system is an international financial instability. Complications functioning of financial markets and unpredictable developments in the global financial system increase the number of risks and increase the instability of the system. Especially dangerous it is for the economies of developing countries because their financial systems are characterized by internal disparities and lack of stability and have increased reliance on global financial market. For example, J. Stiglitz, who is critical of globalization processes, notes that financial liberalization in developing countries will lead to economic collapse.

A number of foreign scientists such as J. M. Keynes, S. Klaessen, J. Clark, M. Kose, F. Myshkin, A. Pigu, P. Rose, J. Sinki, J. Shumpeter, M. Friedman made a great impact in development of the theory and practice of functioning of the bank system in the terms of globalization. Problems of settling of bank systems and their development in the terms of financial globalization were also studied by a number of Ukrainian scientists such as O. I. Baranovskyy, I. V. Burakovskyy, V. M. Gejets, V. I. Mishchenko, S. V. Naumenkova, Y. M. Pahomov, F. I. Shpyg etc. Doing justice to the scientific achievements of native and foreign scientists, it is needed to mention that there are a number of unsolved problems concerning stability of the native bank system in the terms of international financial instability. This influenced on my choosing of the object, topic of the research and actuality.

The aim of the research is to define the essence of the international financial instability and to determine the background of its enhance; to elaborate the practical recommendations as to increasing of the stability of the Ukrainian bank system.

Instability is defined as a state of the global financial system, internally contradictory and unbalanced; increasing the likelihood of unpredictable changes in financial markets could lead to external

shocks and crises in the financial field [1]. Global financial instability in general can be interpreted as the result of conflicting interaction of national, regional and global trends in finance, especially financial liberalization, global financial integration, currency and financial imbalances, the intensification of global capital flows, excessive accumulation of financial liquidity in the global economy.

An important precondition for the emergence of global financial instability are the processes of integration of banking systems to facilitate the gradual disappearance of restrictions on international capital flows and foreign exchange transactions, on the one hand, opening national economies to international capital, and, on the other, – gives the opportunity for a quick withdrawal from it. Accordingly to this, the causes of global financial instability are the liberalization of capital transactions, the integration of financial and currency markets, the intensification of global capital flows, and instability of the U.S. dollar as a major world currency. Financial globalization increases the general interdependence of financial systems and their complications generate instability of financial markets. Therefore, even economically developed countries can not be free from increased risks arising from financial globalization. The main effects of financial globalization can be identified activation spreading financial crisis to strengthen the interaction and interdependence of national economies. Under these conditions, financial turmoil led to some countries causes the crisis in others. Note that such a chain reaction of destabilization enhance endogenous factors such as inefficient government policies, inadequate oversight of the financial system, political risk, uncontrolled export of capital, deterioration of general conditions in the domestic markets.

Essential outcome of integration processes in the financial area that poses a threat to national economies is the reduction potential of the state to control economic and financial processes with the simultaneous transfer of control over the economy of many

countries gradually to multinational corporations. While providers data can have own goals that may contradict the national interests of sovereign states, representing a direct threat to their economic security. Therefore, integration of national financial markets as a result of financial globalization has not only advantages in attracting investment for states but also caused increase of the general instability in world financial markets.

Preconditions for the existence of global financial instability, according to their economic nature and scope of actions are shown in Picture 1.

It is very important for developing efficient crisis management solutions of all levels to define the nature and the causes of the financial instability. How we can see on Picture 1., the problem of the financial instability is caused by the complex of different factors, such as general economic instability, functioning of the transnational speculative capital, deregulation and liberalization of the flows of capital, modern financial innovations, the existence of the superfast methods of the information transfer etc. We think we should highlight the lack of effectiveness of the actions of the IMF and regulatory authorities of some countries among other causes of the financial instability. It is elucidated, that the transnational capital, which equals 8 trillion dollars, is almost free from the countries' superintendence and it can move all over the world freely searching for the most profitable allocation. When the volume of the secondary market of securities alone is reaching the number of 100 billion dollars, there is no real possibility to resist the speculative operations and to control the displacement of the transnational capital.

If we examine some country, that makes its borders open for the foreign capital, then, in case of unreasoned financial policy and improper superintendence, there can be a risk of this situation. Financial liberalization accelerates and increases the volume of the foreign capital, which moves to the banking institutions that function inside the country. This, additionally, increases their ability to credit people and, in case of aggressive credit policy, could lead to the situation, when banks start taking high risks. The example of such situation was the aggravation of the financial instability in the countries of Eastern Asia, where in 1993–1996 years the capital inflows were equal 50–100 billion dollars. Financial liberalization and aggressive credit policy of commercial banks created the credit boom, caused the growth in the number of problematic credits and significant decadence of banks' balances and became the main factors, which caused the deployment of the financial crisis.

It is found, that the processes of the financial globalization do not actually lead to a crisis, but reveal defects of economic systems and deepen them.

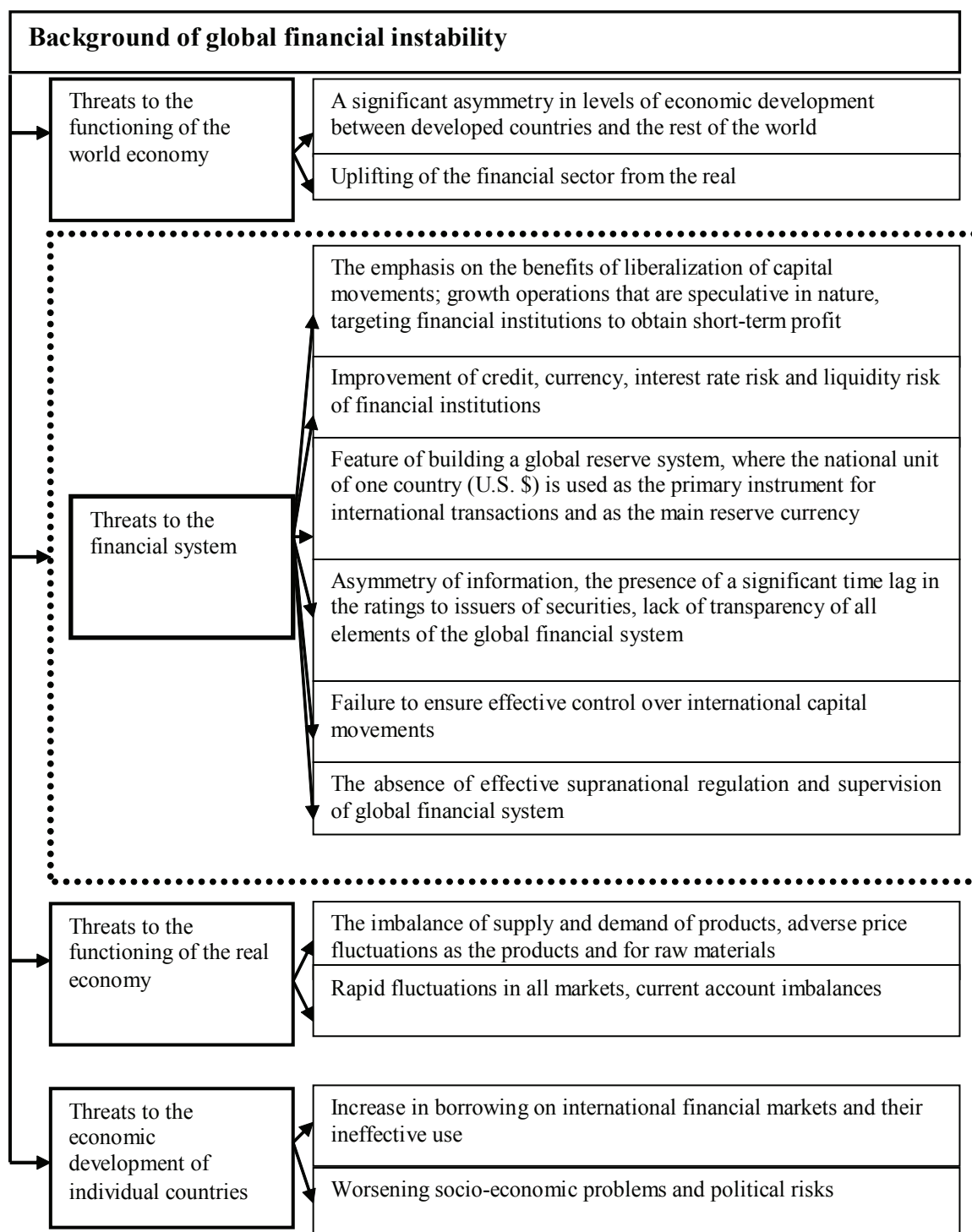
Particularly, such defects of banking systems, which have destabilizing effect, are:

- imperfect superintendence over the banking system, non-fulfillment of the conditions of the Basel committee;
- absence of transparency, lack of true and full statistical data, and discrepancy of the accounting practice with the international standards;
- defects in the banking legislation, especially in the part of creditors' rights securement;
- imperfectness of the corporate management in banks, absence of the effective risk management and too risky credit policy.

Financial globalization also can exacerbate risks, related to the incalculable fiscal policy. The accessibility of the world capital markets can often lead to excessive loans and increase in government non-production costs. The experiences of many countries with financially open economies, which are characterized by incalculable and unreasonable debt policy, show us, that the act of opening country's boards for capital operations enhance undisciplined fiscal policy risk.

Study of dissemination of financial crises in different countries allows us to draw conclusions about these effects. For the economies of individual countries deployment of the financial crisis is accompanied by the collapse of fixed exchange rate regimes and the transition to a free or managed floating regimes; bankruptcy of financial institutions and enterprises of the real economy; uncontrolled capital outflows, state failure to fulfill social obligations to the people; aggravation of social tensions. But even countries that have managed to avert a financial crisis, feel negative crisis effects in the countries that are their trading partners. In fact, based on deteriorating terms of trade and falling prices of export commodities, which usually occurs in such situations, there is a slowdown of economic growth and deterioration of basic macroeconomic indicators for these countries.

Speed of spreading of the financial crises directly depends on the level of the integration of national financial markets to the global financial system. The higher the level of the integration, the more vulnerable to external shocks caused by a crisis the national economy is. Accordingly, countries with well-regulated movement of the capital and limited access to international financial markets are less sensitive to the threat of a financial crisis. There is a view that economically underdeveloped countries which allow the foreign financial institutions free access to their financial systems are the most vulnerable to the malignant changes in international financial markets. In the countries with developing markets the regulation and control are inadequate and ineffective. Therefore, in such countries premature liberalization of the capital transactions makes the



Picture 1. Grouping conditions of global financial instability on a scope of actions

*Compiled by the author basing on [1–3]

existent inefficiency of their economies even stronger. Consequently, vulnerability to financial stability factors associated with financial globalization is largely defined by efficiency of its macroeconomic policy.

World crisis of 2007–2009 began as a consequence of the mortgage crisis in the United States

and was caused by the following factors: excessive supply of housing in the USA, an excessive amount of mortgages of low quality and an opaque uncontrolled diffusion of the mortgage and stock markets. The ordinary outbreak of the crisis in September of 2008 resulted in the bankruptcy of a number of the world leading corporations, the spread of financial

crisis on the real economy and falling of demand on world markets and prices on metal, oil, chemical production etc.

The global financial crisis made all internal problems and contradictions of Ukraine's financial system visible. The shocks of global financial system caused the sharpening of the existing problems in Ukrainian economic system. The background of financial destabilization in Ukraine is institutional underdevelopment of the financial market and the narrowness of mechanisms of the banking system refinancing; all those factors caused the excessive value of the financial resources in the country and the outgoing of the commercial banks to the foreign credit markets because of the rapid growth in credit demand. The instruments of the National Bank appeared to be incapable in the condition of open financial markets and the anti-inflation monetary measures merely forced the need in foreign credits. Impact of the external factor just generated the realization of the imbalances of Ukrainian banking system which are the following:

- huge dependence on the global prices of resources, that is the consequence of the economic structure;
- overheating of the economy, which started in 2005 (the grows in consuming largely exceeded the productivity);
- increase of the external debt: the gross external debt in Ukraine grew three times in 2005–2008 – from 30 to 105 milliard dollars [4], including the private external debt which was 89,7 milliard dollars (39,8 milliard of which – banking system), while almost the third part of this sum needs to be back in 2009;
- excessive consumption and insufficient savings in underdeveloped domestic market, which caused the need of covering the excess of domestic demand by import growth outstripping and then sustained worsening of the balance of foreign trade and risks of currency instability;
- lack of domestic funding sources, lack of long-term, as well as short-term financial resources, which limits the abilities of banks to provide long-term credits on the sufficient level of economic needs;
- shaping the model of development based on demand financed by external loans (in the last three years the amount of credits given to the economy rose 4 times, external loans of the banking system – 7 times);
- liquidity imbalance – divergence between long-term deposits and long-term credits. The major part of resources in Ukraine was attracted by banks on short-term (on 01.01.2008 obligation with maturities up to 1 year were 76 %, in national currency – 83 %) [5], and credits, especially for purchase of housing, stead etc, were provided by banks on 5–7–

10 and more years [5], therefore, the lack of resources for long-term deposits in the banking system became a major problem;

- disproportional increase of the capital of banks in relation to their business volume contrary to the principles of sustainable development of the banking system;
- usage of external loans as a main source of credits to individuals in foreign currency. This state of affairs testified to the growth of credit and currency risks in the banking system, especially during loan transactions with individuals, which could adversely affect the performance of banks of their obligations to clients, including non-residents;
- poor risk management and overly aggressive lending policy of commercial banks.

Consequently, it is clear, that international financial crisis had coincided with Ukraine's internal problems and resulted abrupt development of structural disproportions of national economy. Crisis had proved the incapacity of exogenous growth model, which was established few years before. Numerous attractions of capital on international markets in addition to escalation of inflation rate on commodity markets resulted dramatic expansion of loan portfolios and currency unrest. Attraction of foreign capital for banking sector was stipulated by high internal demand for financial resources on one hand, and expansion of foreign banks on Ukrainian market, which were crediting their daughter enterprises on the other. High rates of external liabilities of other economic sectors were stipulated by high demand of Ukrainian enterprises for loan funds and low interest rate on world's financial markets. Besides, the increase of foreign trade resulted in the increasing amount of commercial credits. Consequently, the debt was expanding and the dependence from external financial funds strengthened dramatically, afterwards, vulnerability to crisis phenomenon increased.

In our submission, the spread of the negative impact of the crisis in the world economy in Ukraine should be expected. Thus the main risks to fear concern: the current deterioration of trade balance, a long difficult access to external borrowing, reduction the stability of the banking system and slow-down of credit activity; collapse of investment processes, strengthening the possibility of speculative attacks on the devalued assets of enterprises, reduction of the dynamics of income and deterioration of quality of life citizens of Ukraine. Thus, in the near future in Ukraine it should be expected to strengthen management implications, requiring development and implementation of appropriate policies to prevent crises. However, the current stability of the financial system depends on effective solution of two conflicting tasks – ensuring the proper level of bank liquidity and the maintenance rate.

The experience of the world financial system suggests that the ability of any state to resist external crisis phenomena largely depends on its economic and financial strength, ability to respond timely and effectively use financial and monetary regulation instruments of the economy. The possibility of the country benefit from financial globalization and its vulnerability to changes in capital flows is determined by macroeconomic stability in the country and developing its financial institutions.

Among considerable diversity of anti-crisis measures, which are held by different countries of the world, the leading place is occupied by those, which are addressed to the direct support of the companies of financial, as well as of the real sector of economics, which are suffering from crisis. The directions of money use for the overcoming of the financial crisis include expenditures on governmental guarantees, recapitalization and assets purchase. A systematic consequence of such measures would become restoration or acceleration of economic growth, ascending of companies' competitiveness, preservation, or expanse of employment.

In process of this research, such main directions of managing anti-crisis measures are determined:

- restoring confidence, economic growth and employment;
- strengthening control and regulation of the financial system;
- increasing capitalization and reforming international financial institutions;
- promoting world trade and international investment, avoiding protectionism.

A synthesis of international experience gives an opportunity to distinguish a number of anti-crisis tools which can be used to improve the stability of the Ukrainian banking system:

1. *In the banking field* – credit expansion proposals by:

- increasing the credits to the economy by development banks;
- prolonging annual favorable period during which the debtor may pay only the interest, putting off the sinking of the main debt;
- strengthening and expanding state credit guarantees and financing by the public financial institutions;
- increasing the authorized capital of state banks.

2. *In the sphere of the real economy* – support of the small and medium businesses:

- subsidizing interest rates of commercial loans to small and medium enterprises and households;
- temporary lowering corporate tax rates;
- creating special funds which will provide loans to enterprises that have potential for growth and making job places;
- simplifying loan procedures for small and medium enterprises, opening their own businesses;

providing tax breaks and financing consulting services for these purposes.

The mandatory conditions of a stable banking system are: an effective supervision system of banking capital quality, liquidity and risk; high transparency of banking institutions, high promptness of risk reaction by regulating and supervising agencies; the use of adequate mechanisms of monetary accommodation and central bank's activities.

Unlike the other countries, where the first anti-crisis steps were the measures directed to the recapitalization of the bank institutions, the first step in Ukraine was the ban of the deposits pre-term delivery. This greatly affected the welfare of citizens and undermined confidence to the banking system. Further anti-crisis measures which consisted in providing financial assistance to certain banking institutions to maintain their stability, didn't facilitate the protection of commercial banks' clients and didn't increase the stability and reliability of the banking system in general.

The key task today is the greatest possible softening of the global financial crisis influence on the Ukrainian banking system and increase faith to it. Priority measures to reduce the negative impact of the crisis on the functioning of the domestic banking system must become:

- strengthening the National Bank of Ukraine in the process of exchange rate through active currency intervention, increased rigidity of the rules of trade in the foreign exchange market, development of mechanisms for a flexible exchange rate management to prevent its abrupt;
- ensuring the rational use of foreign currency, strengthening the motivation of subjects of currency relations until the exchange positions are balanced and the currency risks are insured;
- ensuring the transparency of the market's exchange segment functioning by improving the rules of work on it for the members and abidance of distinct principles and procedures;
- activating the refinancing policy, examining possible decrease of the reserve ratio norms, increasing of the limits and weakening the demands for the mortgage by getting the loans from NBU;
- creating special state funds for supporting the banks' liquidity and with the aim of overcoming crisis situations on the market, in particular for the redemption of the securities;
- creating an effective system of counteraction to the capitals' outflow from the country using the "shady schemes", and also strengthening the control over speculative agreements on the interbank exchange market;
- forced augmentation of the long-term financial resources supply, in particular with the use of pension accumulations, which requires the pension system reform.

The problem of objectivity of information of all participants of financial system becomes especially significant in terms of instability of this system. It is important to reduce panic about inflation and exchange rate expectations and raise confidence in the banking system and the actions of NBU. This should raise public awareness on the prospects of inflation and exchange rate goals, operational overview of the situation in the banking sector and justify reasons for the application of measures for its balance.

Conclusions. Considering that the banking system is the most developed sector of the domestic fi-

ancial system, it is actually the foundation and guarantor of financial security and stability. During the existence of global financial instability, the banking system is vulnerable to global financial crises. To the impact of financial globalization on developing the national economy lies, primarily, in bringing positive change and leveling the increasing financial instability, it is necessary to minimize possible risks, taking appropriate measures to ensure stability and reliability of the banking system of Ukraine.

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СТАБІЛЬНІСТЬ БАНКІВСЬКОЇ СИСТЕМИ УКРАЇНИ В СУЧАСНИХ УМОВАХ

У статті досліджено сутність та фактори глобальної фінансової нестабільності, а також визначено рекомендації щодо підвищення стабільності вітчизняної банківської системи у сучасних умовах.

Ключові слова: глобальна фінансова система, міжнародна фінансова нестабільність, стабільність банківської системи України, фінансові кризи.

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Грязный Р. О.

ПРОБЛЕМИ РОЗВИТКУ РИНКУ СТРАХОВИХ ПОСЛУГ В УКРАЇНІ

У статті розглянуто основні проблеми страхового ринку України на сучасному етапі його розвитку, а також запропоновано низку кроків, які необхідно здійснити для їх подолання.

Ключові слова: страхування, страховий ринок, валові страхові премії, страхові резерви, кептивні страхові компанії, перестраховування, страхові виплати.

Постановка проблеми. Незважаючи на світову фінансову кризу та інші прояви економічної нестабільності, страховий ринок залишається найпотужнішим небанківським фінансовим сектором України: його частка в загальних активах

становить 68 % і дорівнює 41,9 млрд грн. Важливість всебічного та поступального розвитку страхового ринку підкреслюється його призначенням: страхування надає впевненості в розвитку бізнесу, сприяє формуванню ринку вільного