

REGULATORY ACTIVITIES OF THE STATE TO PROVIDE THE STABILITY OF THE BANKING SECTOR

The banking sector should be seen as a single object of regulation by the state, which requires close coordination between the National Bank with other financial market regulators. However, despite this, the instruments of monetary policy as the economic and administrative direction should provide the greatest impact on the situation with regard to the role of the National Bank as a true lender of the last instance . After all, the correctness of its action not only depends on the development of the banking sector, but also Ukraine's economy as a whole.

Keywords: *banking system, financial system, stability of the banking system, the financial crisis, crisis management, financial stability, macroprudential oversight, stress testing.*

Statement of the problem. *Creating an effective system of crisis management in the banking sector is an important strategic objective for Ukraine that will provide sustainable development of the banking sector at the regional and the national level, which in turn will be a strong foundation to exit the crisis and further development of the national economy. A special role in this process is given the National Bank of Ukraine.*

Analysis of recent publications.*The issue characteristics of banking crises and contradictions of modern monetary systems are studied by Mishchenko S., A. Koptuyh, Ostapyshyn T.; prospects of the domestic financial system are revealed in studies Podvysotskogo R., Patsera M., Polozenko D., issue diagnosis banking crises by the central banks are studied by Arbutov S., Kolobov Y, W. Wolf, J. Dmytryk, Patsera M.*

The main material. *Banking system is considered to be stable if it: 1) facilitates the efficient allocation of financial resources in space and time , and 2) allows to make assessment, quotes, allocation and management of financial risks, 3) retains the ability to perform these essential functions even under the conditions of external shocks or increasing disparities. Because the financial system is seen as a dynamic system, its stability is seen primarily in terms of matching a particular state, which it should reach after some changes, transformations or shocks. The stability of the banking system is a factor in the stability of the financial and economic systems and economic security. Today, facilitating the stability of the banking system is one of the main functions of central banks [1].*

Working with the financial stability of the central bank is carried out in three directions. First - macroprudential supervision. It includes the monitoring and analysis of the entire financial system indicators, a system of preventive indicators that point to the changing situation in the future. Second - is the development of an action plan to improve the situation, if the analysis of the situation shows that the intervention of the National Bank is necessary. The third way of work - training plan of anti-crisis measures that needs to be used to go out of the crisis in case of its occurrence.

Macro-and mikroprudential analysis as a part of anti-crisis prudential supervision which allows to predict trends in banking processes due to the impact of various shocks that occur at the certain financial markets and on macroeconomic level as a whole , as well as negative events in the individual banks. In today's central banks, where the effective macroprudential analysis hasn't been established, there is an urgent need for quality information and holistic analysis of financial stability [2]. The Director of General Economic Department of the National Bank of Ukraine Alexander Peter believes that the function of providing financial stability, which is the main component of the macro-prudential supervision should not be confused with the bank supervision of concerning individual banks, rather than the financial system as a whole. The concept of the financial sustainability encompasses not only the banking system, but all macroeconomic agents in the economy, including business, public, payment systems, banks, non-banks, markets. This set of financial agencies should work accurately and reliably, and have a promising vision of what can happen to it , not only now, but after a certain period of time [5].

As the international experience shows, many central banks have already received a legislative statement that their main function is also to provide the financial stability. They have created special units that have an autonomous status. Most central banks run them or the president of the bank or any of his deputies or members of the Board, which is responsible for the functions of the financial stability. In Ukraine, according to the new Law "On the National Bank of Ukraine "it was decided to create a special structure – a management of the financial stability, which is responsible for the following functions: fulfilling the stress testing of the financial system, the development of new instruments, which are recorded by the results; expanding public and preparation of reports for the financial stability, which are measures to prevent financial crises. Since 2012 the Department of Financial Stability operates within the policy of the NBU.

Providing of financial stability of the National Bank of Ukraine and is envisaged legislatively now. For example, Article 6 of the Law "On the National Bank of Ukraine", which previously determined the main purpose of the currency stability in 2010, is amended with the interpretation and also the priority is added to achieve and maintain the price stability and to promote the stability of the banking system, provided that it does not prevent the achievement of the first objective [3]. Sales functions to promote financial stability requires: setting objectives of the central bank and the institutions that help it to provide the financial stability, the creation of tools, including modeling , since macroeconomic models used for forecasting purposes or to develop insufficient scenarios to serve the purposes of the financial stability. So now the extended block of models is being studied, which shows the development and possible risks in the financial sector and the banking sector, particularly with bad credit.

The study of the problems of stability and reliability of the financial system, particularly the banking sector, has been scientifically researched by the Center of Scientific Researches of the NBU. In this area the center conducts the researches

on: the development of the organizational and methodological approaches to the formation of the National Bank assessment of the financial stability; determining the list of indicators and calculating methods of testing stress; studying the factors for predicting the dynamics of indicators of the financial stability of the banking system, optimizing models for assessing financial stability of the banking system. The Center of Scientific Researches of the NBU prepared the first pilot project "The Report on the financial stability of the banking system. "In 2013, one of the priority areas of the research is the "definition of the systemic risk and its impact on the financial sector, "and produced" Analytical review: trends in the financial sector of Ukraine" [4].

And soon, according to the Director of the General Economic Department of the National Bank of Ukraine Alexander Petrik, you must create the appropriate committee of the central bank, as is done in many central banks in the world. It probably will include representatives of other regulators who make decisions, based on consideration of analytical data on the financial stability [5]. The stabilization of the banking sector in Ukraine is related to the objective necessity of forming the necessary foundations, maintaining the financial stability of the banks and the sufficient liquidity as a key condition for the effective realization of its basic functions of the financial obligations to depositors and creditors, and providing of continuity of payments and payments between market players as fundamental conditions of normal functioning of the economy. We select a number of key measures that could contribute to this task.

Firstly, an important measure of institutional stabilization of the banking sector would be to increase the level of protection of the banking deposits. In this case it is a fundamental change in priorities from the ban on early withdrawal of the deposits - to ensure the NBU return of all funds of depositors, which can be achieved by refinancing. Under these conditions, the possibility should be considered in the selected cases of refinancing loans without collateral as a surgical tool of the monetary policy. But in this case, it is necessary to take into account the presence of certain risks of macroeconomic stability due to the increase in inflation, due to increased the NBU refinancing of commercial banks, including the purpose of deposit insurance. Restoring confidence at the banks and withdrawals will allow to neutralize in the future the negative effect of the initial scaling refinancing. In case of increased external shocks the NBU, if necessary, strengthens the support liquidity by expanding the list of collateral, which is declared in the tendering refinancing and increase in terms of the liquidity support of the banks. Optionally installed, additional requirements for the banks have to maintain the liquidity through the refinancing the instruments [6]. It is necessary to strengthen the control of the Bank for the intended use of loan refinancing.

Secondly, the debt limit pressure on borrowers. Interest rate policy of the National Bank of Ukraine in the process of lending to commercial banks can be designed to encourage the latter to restructure debt, reducing the debt burden on borrowers by gradually lowering interest rates. Interest rate policy will be aimed at fostering conditions for reducing the real cost of credit. However, the dynamics

of interest rates on loans and deposits essentially depend on the level of market expectations, overcome structural imbalances, and more. This will require taking coordinated with all branches of government action towards macroeconomic stabilization, improvement of legislation to protect the rights of creditors and consumers of financial services, improving the investment climate improvements in the judicial practice of considering credit disputes [7].

Third, monetary stimulate economic development. The Professor, the Chief Scientist of the monetary relations of the Institute of Economics and Forecasting of NAS of Ukraine, Volodymyr Kornieiev emphasizes that the stabilization of banking systems as in the overcoming of consequences of financial crisis and to prevent the risk of recovery is a major challenge and vector regulation of central banks in the world. Together, the levels of state regulating monetary recovery processes play a special role as the monetary characteristics largely determine the proportion of economic growth and reproduction.

A characteristic feature of monetary stimulation of economic development in recent years is the implementation of leading central banks soft monetary policy, which is manifested in two key areas of activity: keeping them low interest rates to restore circulation credit and purchasing government securities to finance government deficits. In the domestic banking system in 2012-2013 Vladimir Kornieiev pointed out the following risks: credit risk, and the risk of devaluation of currency dollarization. Formed the risk of excess liquidity. For example, if the first nine months of 2012, the volume of bank loans increased by 1.2% (to 803 bn.), the deposits - by 7.7% (to 526 bn.). The population continues to buy and tezavruvaty foreign currency. In the currency structure of deposits of 42 % are U.S. dollars, 8% - other foreign currencies. The basis for the stabilization of the banking system of Ukraine should become a long financial resources in local and public confidence in the monetary actions of the regulator.

The effective resolution of monetary problems is possible in the mainstream improving macroeconomic indicators of economic development. Recycled solvent stimulated exports and domestic demand are key to strengthening local currency. This will correct the existing imbalances in the balance today in terms of its characteristics features for the trade balance and the capital account. The emphasis should be made on the development of the internal market of long-term financial resources [5].

Fourth, guarantees for interbank loans. In order to enhance interbank lending as an important factor to ensure adequate liquidity and financial stability of the entire banking sector should consider the provision of the National Bank guarantee for compensation of possible losses as a result of banks lending to other banks - participants in the money market. First of all, talking about the state and system- banks can get from NBU appropriate safeguards cover possible losses. In turn, they have to assume certain obligations on the volume and cost of credit, which may be placed by these banks in the interbank market. This event could definitely reduce the negative impact of refinancing on the economy and the money

market as loans would not be carried out by the National Bank of Ukraine, and by commercial banks, but guaranteed by the NBU.

Fifth, the establishment of an effective system for monitoring violations of banking sector stability. At a time when the manifestations of the crisis are constantly changing, the National Bank of Ukraine is important to establish a dynamic monitoring system of risk with which you can track the common signs of complications, including: a) the excess liquidity in the financial market, and b) excessive short-term capital inflows in certain sectors, c) the rapid expansion of credit, excessive credit expansion of banks, d) rapid rise in certain types of assets (eg, real estate).

Sixth, regarding alternative refinancing direction solvency and financial stability of commercial banks can be considered the procedure of recapitalization. She expected to participate in the acquisition of state corporate rights of banks (shares). State participation in the management of such banks and deciding the priorities of monetary policy can be a valuable tool of anti-crisis measures. Applications recapitalization of troubled banks in the world is a common anti-crisis measure, and in Ukraine by 2009 this experience was. The effectiveness of the procedure recapitalization of domestic banks at the expense of the budget was ambiguous: despite the significant capital infusion (over 25 bln.), yet failed to restore confidence in banks, to restore the proper level of solvency and liquidity, promote financial stability and conduct effective financial and operations. Given that the capitalization of banks in Ukraine at the expense of the state and the crisis was temporary, stability and capitalization of the financial system of Ukraine needs of state withdrawal from bank capitalization in which it took part, with the return to the state budget. Also, according to the Law of Ukraine "On peculiarities of selling stakes in state-owned banks in the authorized capital, the capitalization of state attended the" Ministry of Finance of Ukraine carries out a number of measures (development of organizational and legal mechanism for sale of corporate shares in the capital of the state recapitalized banks) the assurance of a return to budget money spent on recapitalization of banks [5].

Seventh, to improve risk management. Regulatory mechanism as part of the National Bank of Ukraine, as well as on the part of commercial banks should be aimed at improving risk management policy - especially credit and liquidity. This will be good for optimization of business processes within the banks, their branches network structure, mechanisms of timely and comprehensive risk assessment and the establishment of necessary reserves. This is due to the complication of the procedure for consideration of applications for credit, extension of the system of indicators to assess the financial sustainability of the recipient of the loan, its income, credit history, reputation and liquidity of the proposed collateral, and internal control review procedure for granting loans to different borrowers.

Given the international experience on the implementation of stress testing and recommendations of the Core Principles for Effective Banking Supervision were developed by the Basel Committee on Banking Supervision, according to the

Methodological re-mendations on the order of stress testing banks in Ukraine [5], domestic banks should conduct stress testing for the following risks: credit risk, liquidity risk, market risk (currency risk, interest rate risk), operational risk. To improve the effectiveness of the banking supervision in Ukraine, as the experience of the European banking management, stress testing should make it not only at the level of individual banks, but also at the level of the banking system as a whole. The most acceptable method for stress testing of the banking system is the method of scenario analysis, the benefits of which are the following: Allows you to carefully consider the impact of risk factors in deploying several alternative scenarios (pessimistic and optimistic) is complex, because it allows to take into account internal and external factors risk has a unique approach to the management of various risk factors that are marketed as crisis situations individually, or all at the same time and mutually reinforced, has a practical value, since the results of stress tests make it possible to assess in advance the impact of potentially negative or positive events and take appropriate measures to minimize the losses of the banking system in the event of a significant deterioration in internal and external operating conditions. The procedure for evaluating the vulnerability of the banking system can be implemented based on the sequence of stages stress testing.

Step 1. Updating target setting stress testing (one or more), reflecting the impact of the banking system and the sensitivity to changes which risk factors will be investigated. Step 2. Carrying out analytical work to identify risk factors, that is, lyat threat to the financial stability of the banking system. At this stage the detailed risk factors - both external and internal, which will be considered during stress testing, and identifies the possible combinations of these factors, made standardization of risk factors and target setting that lets you bring all variables to a common measurement scale.

Step 3. Developing a model stress testing, reflecting the impact of factors risk to the target parameter determining the most likely changes in key parameters and criteria for stress testing, establishing their critical values. Step 4. Development scenarios and risk assessment of their implementation by formalizing Depending on the target parameter stress testing of each risk factor using correlation and regression analysis. Step 5. Analysis of the results of the potential impact of risk factors on the target parameter and prediction of the likely amount of losses of the banking system in the implementation of optimistic and pessimistic stress scenarios. Step 6. Conclusions stress testing and development of measures to improve the financial stability of the banking system [7].

Conclusions. So important anti-crisis measures to be taken to ensure stable operation of the banking sector of Ukraine , above all , should be the development of state-level programs of measures to improve the competitiveness of the banking sector in Ukraine that would contain instruments of tactical and strategic direction and solve the following problem:

- providing of the financial stability and solvency of the banking sector through: increased profitability and capitalization of banks, increase of the long-*

term resource base, building adequate support bank liquidity through the improvement of refinancing, reform of banking supervision;

- stimulate the process of lending to the economy by solving the problems of legal protection of creditors' rights and increase in the solvency of borrowers, limiting the risk of consumer credit and lending of small and medium enterprises, development of an effective mechanism for refinancing mortgage loans;*

- Increasing organizational level banking sector due to increased confidence in the banking sector , setting up of the National Bank of Ukraine with the banking community, bank capital reallocation between different regions of the country , improving banking regulation mechanisms;*

- improve the quality of credit institutions subject to the development of the national standards of corporate governance at the banks, stimulate an adequate system of internal control and audit in the banking institutions.*

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