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Samorodov B.
Doctor of Economics, professor ,
SHEI «Banking University»
Kharkiv Educational and Scientific Institute
Babenko M.
Senior Lecturer, SHEI «Banking University»
Kharkiv Educational and Scientific institute

PROBLEMS OF FINANCIAL STABILITY OF UKRAINIAN BANKS

Under the current conditions of globalization, when banking, currency and financial crises occur quite often in different parts of the world, the question arises about ensuring sustainable economic growth of each country, which, in the first place, depends on the reliability of the banking sector. Today, for the economy of our country, one of the most important factors in ensuring the trust of depositors, partners, investors to banks is to maintain their stability and ensure financial development, should be not only short-term but also their strategic tasks, which, in the first place, will depend on the dynamics of market transformations and shifts.

At the same time, in the conditions of increasing openness of the Ukrainian economy and its consistent integration into the world economy, the question of ensuring the stability of the functioning of the banking system becomes relevant. This is due to the influence of the external and the internal environment.

Macroeconomic stability has been holding since the start of the year, which has allowed the banking sector to consolidate the positive trends of past periods. Demand for banking services is recovering and banks are lending more proactively to retail customers. Banking interest rates are declining further and this trend is expected to continue. The funding base at banks has remained stable due to a recovery in deposits. The banking sector overall has generated higher profits, driven by growth in net commission and interest income, as well as lower provisioning.

Overall, 2017 was a successful year for Ukraine’s banking system; the system became more resilient and better capitalized. Banks turned profitable and secured more stable sources of funding. After a three-year pause, banks began lending again to households and corporates. The overall level of systemic risks within the banking sector was low. However, the banking system’s further development is hampered by slow progress in structural changes in the economy, the lackluster performance of state-owned banks, and a weak legal system. Those factors impair the efficient redistribution of financial resources and hinder a recovery of lending. The macroeconomic environment has not changed significantly in the last six months. Economic growth has remained slow, while consumer and investment demand have recovered rapidly. That recovery will serve as the basis for the acceleration in GDP growth to more than 3% in 2018. The volatility of the hryvnia exchange rate was moderate, while inflation overshoot the NBU target. Against this background, long-term lending is held back by high inflation, which makes efficient pricing of banks' long-term assets and liabilities impossible. The NBU expects inflation to slow next year, but acknowledges the emergence of new risks to inflation. Seeking to mitigate the effect of those risks and bring inflation back to its target level, the NBU raised its key policy rate twice by total of 2 pps to 14.5% in late 2017. Despite those rate hikes, the NBU continues to see a long-term downward trend in interest rates, especially loan rates. Suspending Ukraine's cooperation with the IMF would pose the largest risk to the country's financial stability. Without financial aid from international institutions, Ukraine would find it difficult to rollover the more than USD 20 billion of sovereign and state-guaranteed FX debt maturing in 2018-2020. The NBU deems it necessary to start negotiating on a new lending program with the IMF before the current EFF expires in 2019. A new program would not only help refinance Ukraine's outstanding debt but also generate additional momentum for reforms.

The financial stability of banks has been gaining importance for leading financial institutions around the world in recent years. Considerable attention has been paid to improving methods for evaluating and monitoring the financial stability of banks to ensure their effective functioning in dynamic macroeconomic conditions. The globalization of financial markets, the ever-increasing supply of non-traditional banking services, the creation of bank holding companies, mastering new technologies and other processes of the banking business lead to the emergence of new banking risks. Accordingly, there is a need to review approaches to the assessment and analysis of the financial stability of banks.

Financial stability is the state of a financial system when it is capable to perform duly its core functions such as financial intermediation and execution if payments as well as to resist crises. Financial system is presumed to be stable if it: efficiently distributes resources from savers to investors; thoroughly assesses and adequately manages financial risks; is capable to absorb shocks without major negative consequences.

During the last decade some innovative methods of analysis of banks' financial stability have been implemented: the inclusion of sensitivity risks component to some financial stability assessment systems; the origin and use of standardized computer models for assessing financial stability by supervisors and banks; the developing of statistical anticipatory response system models aimed at detecting possible problems in banking and using effective preventive measures.

The systems of bank evaluation in different countries have significant features and depend on several factors: the possibility of on-site inspections, their frequency and scale; remote supervision; types and composition of statements given under supervision; the availability of other sources of information and technology and the human factor. Systems that exist today in the world can be classified as follows: ratio analysis and systems analysis of homogeneous groups (the USA, Germany); comprehensive assessment system of bank risk (the UK, the Netherlands); statistical models (the USA); rating evaluation system (the USA, Russia, France, Italy, Poland, Ukraine and others); microprudence and macroprudence analysis (member countries of the IMF).

During the crisis period, the NBU focused its efforts on normalizing the operations of the banking sector. Now, the regulator is prioritizing the establishment of adequate requirements for capital and liquidity to limit the impact of any future crisis on banks. Starting next year, the NBU will step up its efforts to align the requirements for Ukrainian banks with the Basel recommendations and European directives. To accomplish that goal, the NBU will introduce LCR, a new liquidity ratio, next year to strengthen banks' resilience to outflows of funds. Banks will also be given the opportunity to review the draft regulation on the new structure of regulatory capital and the eligibility criteria for its components. All the novelties will be introduced upon a detailed quantitative analysis of their impact on the banking sector. Annual stress testing will be introduced and will form an important element of the new approach to enhancing the resilience of banks. Independent auditors will be engaged to assess the quality of assets of all financial institutions, and the NBU will independently perform stress tests. Banks jointly accounting for more than 90% of the banking sector by assets size will be stress-tested. The NBU will also work to enhance the disclosure standards for financial and prudential reports by banks. Starting in 2018, the regulator will begin publishing reports on the structure of banks' regulatory capital and will further tighten disclosure standards. The NBU strives to ensure the full transparency of banks' operations and financials.

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