Financial Market Stabilization as a Component of Economic Security of Ukraine

Roman Tosko, Yuriy Blynda

Department of administrative and financial management
National University “Lviv Polytechnic”, Ukraine, Lviv,
S. Bandery street 12, E-mail: Roman.R.Tosko@lpnu.ua.
blyndayura@gmail.com

Abstract. – The article deals with the essence of the problem of domestic and global financial market and presents a priority steps to stabilize and further development of the financial market of Ukraine.

Key words – the financial market, financial institution, financial sector.

I. Introduction

Nowadays the financial system of Ukraine is passing one of the biggest crises since independence. All the chronic problems that have been accumulated in recent years have emerged on the surface: lack of a clear interaction between state, market and people, the crisis of public confidence in financial institutions. Acute problems of management and supervision, resulting in a failure of financial institutions to pay its obligations.

The financial market of Ukraine is the object of attention of many domestic economists. In particular, you can call local scientists such as V. Bazylevych, A. Peresada, Fedosov V. Sheludko, St. George, A. Vasiliko, A. Hal'chyns'kyi, S. Hoffman, N. Kostin and other scientific works and Entries which are extremely important in the exploration of the domestic financial market and its structure.

Analysis of scientific works of domestic scientists aforementioned need for a deeper understanding of the nature and functionality of the financial market in social reproduction, as well as in terms of the institutional aspect of social life.

II. Main part

The development of Ukraine's financial market is a prerequisite for the development of other sectors of the economy of the state. A well-functioning insurance market, developed non-bank credit institutions, pension funds and other financial institutions contribute to the sustainable development of all economic processes in society. The financial sector is one of the most important part of the national economy.

Financial market - a special market, which traded a special product - money provided for use at the time in the form of loans or permanently [1].

According to V. Oparin "Financial Market" - a set of exchange-redistributive relations connected with the processes of buying and selling financial resources required for implementation of production and financial activities [2].

Financial market - a component of the financial system of a country that can successfully evolve and operate only in market conditions.

Today the financial market has the following components:

1. Markets of physical assets.
2. The securities markets.
3. Market of derivatives (futures, of forwards).
4. Market of mortgages.
5. The consumer credit market.
6. Market investment.
7. Market currency funds [1]

The main subjects of the financial market are the state, the public, professional market participants - financial institutions and infrastructure institutions, institutes of non-financial areas, as well as foreign market participants [3]

Most modern researchers describe financial stability as the ability of the financial system deal with various risks. However, the generally accepted definition of financial stability today does not exist. We will follow the approach proposed by Harry Skinazy [4].

According to H. Skinazy, a stable financial system is if it capable to perform the following three key functions:

- the distribution of economic resources in general and redistribution of resources the time between savings and investment in particular;
- accounting, assessment and prediction of financial risks;
- absorption (removals) of financial shakes and shocks emerging from the real economy.

In turn, factors that violate financial stability, can be divided into two groups: external (exogenous) and internal (endogenous).

The first group includes various macroeconomic imbalances in production and consumption, investment in real capital, international trade and investment flows.

The second group - factors associated with the most imperfect financial markets of age. A recent study by Kenneth Rogoff and Carmen Reinhart confirms that the current financial crisis are something regular and frequent, and financial markets characterized by instability [5].

Obviously, the cyclic mechanism of the current financial crisis is not fundamentally different from historically known mechanism of credit expansion of the change of the seasons "bubbles" and crashes. Market players rely on endless growth of prices of certain assets, whether real estate, stocks, commodities, derivatives, etc. Real income, generated by the asset (rent, profit or dividend) loses values in this case, and the dominant motive asset transactions is increasing its price. An asset that increases in value, has been used for providing loans, which go further purchase of the same asset. But there comes a time when growth rates slow down or stop, and cyclic mechanism worked at stirring up "bubble" began to work rapidly in reverse direction.

According to Dirk Heremansa, financial markets are imperfect in its nature, because it has the following special features:

- dealing with a particular commodity - money supply which is limited state monopoly;
- dealing with future cost and high risk uncertainty;
- assessment of good financial product or service much complicated and based on trust (credence goods);
- information asymmetry, strongly expressed agency problems and high moral risk as the unequal distribution of risks and benefits for the parties to the contract;;

- high interdependence and the risk of gregarious behavior of the behavior of market participants [6].

The banking system is dominant among other segments of the sector. As a result, 38 banks are in the process of liquidation, in 50 institutions introduced a temporary administration. The volume of deposits in foreign currency during 2014 decreased by 36.9% and amounted to 19.4 billion dollars. (in the national currency - by 15.4% more) in January-February 2015 decreased rate of up to 18 billion dollars.[7]

What the National Bank and the government In these conditions can do? The fact that in the past - "extinguish fires", primarily by administrative methods. While that our financial system is unstable and must act to prevent, much has been said before.

First of all, today should identify three global challenges of the market:

1) detachment of the financial markets to stimulate economic development, their focus on getting quick profits;;

2) lack of public confidence in financial institutions;

3) lack of effective borrower and the presence of "toxic" assets.

III. Recipes of of treatment

Algorithm of actions of the National Bank and the government in the present circumstances should be based on three areas:

1) stabilization of the currency market, reducing and keeping inflation at an acceptable level for the economy (not more than 10%);

2) stabilization of the financial sector, restore confidence in the financial institutions market;

3) formation of an effective system of redistribution of resources from their preferred direction for the implementation of economic development projects.

The question is what to do now and is it possible to avoid such situations in the future. The answer - in building an effective system of supervision of financial institutions and reorient the banking system to the real economy.

Financial market now in anticipation of the new economic and financial policy, which has stabilized the currency. In the short term, though trite as it sounds, are seen priority restrictive measures of an administrative nature, aimed at preventing speculative exchange rate fluctuations.

In the medium term, key measures should be: the discount rate, open market operations, regulation of bank liquidity and so on..

To stabilize financial market institutions one can use the five basic steps::

Step 1 - Permanent monitoring of financial institutions to ensure timely detection and appropriate solutions to eliminate them.

Step 2 - reorganization or liquidation of insolvent financial institutions. According to some estimates the number of financial institutions could be reduced by 50-60%. However, there is a logical question: where to get money for payments to individuals, since the budget of the Fund Deposit Guarantee is not "elastic"? It should also address the issue of restructuring of loans.

Step 3 -. Establishing a state "pad" to restore the financial system through the adoption of effective legislation that will, restore public confidence in financial institutions.

Step 4 - Stabilization, which requires the system to ensure effective supervision aimed at the prevention of threats, strengthening the system of protection of rights of investors and consumers.

Step 5 - efficiency. Its implementation should aim at raising the level of financial literacy, co-financing of major projects, implementation of risk management systems and safeguards to ensure guaranteed payments in the stock market, the efficiency of management. Restoring confidence in the banking system, which will increase the volume of its deposits, is only possible if economic falling will slow down and the welfare of Ukrainians will increase. So at this stage is especially important government support for financial sector development. One of the most effective tools can be a state development bank, through which you can direct the flow of public funds to support priority investment and innovative projects to provide access to long-term undertakings credit

Conclusion

The key of the stable development of the financial system of Ukraine is the development of the real economy, and vice versa. But all this should be based on a single vision of the ultimate goal of responsible authorities and the National Bank and the government implementing comprehensive measures aimed at stabilizing the financial sector and real action plan for economic recovery.

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