

INTEGRATED APPROACH TO THE ASSESSMENT OF IMBALANCES AND SOUNDNESS OF FINANCIAL SECTOR

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Summary. The shortcomings of the current system of FSI are pointed out in the article. The features of the imbalances of the financial sector are shown. The use of the integral financial

soundness indicator as well as credit aggregates for more adequate assessment of susceptibility of the financial sector to financial stress are proposed.

Key words: *financial sector, financial imbalances, financial soundness, regulation of the financial sector.*

Statement of the problem. In recent decades serious price fluctuations in assets markets (financial, real) were often followed by financial stresses in economies of many countries of the world. Another world financial economic crisis of 2008–2009 once again made theoreticians and practitioners think of the role and place of central banks (national regulatory authorities) in contributing to stable economic growth. Along with this financial economic crisis of 2008–2009 revealed failures in the mechanism of early warning of crisis signs, imperfections of imbalance detection methodology in the financial sector at early stages of their formation. That is why the questions of imbalance regulation in the financial sector of economy are particularly actual not only for Ukrainian economy.

Analysis of recent research and publications. The questions of price and financial stability ensuring are researched in the works of national scientists A. Baranovsky, A. Kuznetsova, V. Mishchenko, S. Mishchenko. These scientists investigate methodical and practical aspects of stability evaluation of the financial sector of Ukraine. Essence and processes connected with accumulation of financial imbalances are presented in the works of foreign scientists C. Borio et al. Along with this an unsolved scientific task is working out efficient methodology of domestic financial sector regulation. Its implementation would allow eliminating imbalance accumulation in the financial sector of national economy.

The objective of the paper is to work out scientific methodological basis for performing integral estimation of imbalances and stability of the financial sector of economy.

Justification of scientific results. Term «financial imbalances» is often used in scientific literature. A prestigious scientist, deputy manager of the monetary economic department of the Bank for International Settlements Claudio Borio gives the following definition. The term «financial imbalance» refers to overextension in balance sheets during booms resulting from the interaction of the behavior of asset prices and external financing, an overextension that tends to undermine the sustainability of the economic expansion and to exacerbate the downturn.

Among the national scientists (A. Baranovsky, V. Kozyuk, O. Snizhko), interpretation of the economic category of «financial imbalances» is close to the approach in term interpretation by foreign scientists. For example, V. Kozyuk defines «financial imbalances» as significant deviations of financial aggregate dynamics (financial instrument market capitalization) from their historic path. O. Snizhko characterizes «financial imbalances» as **processes of «overproduction or underproduction of financial instruments and services in particular market segments, overvaluation of balances of financial system participants, cases of volatility growth in particular financial markets (price «bubbles»), etc».**

A. Baranovsky has formalized the following imbalances of the banking sector of Ukraine during the pre-crisis period:

- gaps between liabilities and bank credit base;
- **short-term liabilities prevailing in the structure of resource base and long-term credits in assets structure;**
- **currency imbalances, particularly, credit to deposit ratio in foreign currency;**
- significant gaps between credit growth and real GDP change;

- mismatch of the extended credit dynamics and the level of nominal income of population;
- high level of annual growth of the private sector of economy.

Numerically imbalances can be evaluated by calculating so called gaps (ruptures) between factual and expected index values. Expected values are usually simulated with the use of Hodrick-Prescott statistical filter allowing to reveal a cyclic component in time series and is often used in the theory of business and financial cycles.

It should be noted that the question of implementation of financial imbalance concept in the instruments of financial sector regulation is still on the stage of testing. According to the opinion of the director of the General Economic Department of the National Bank of Ukraine A. Petrik an important question is in creating the system of preventive indicators that will indicate change of the situation in general.

However, at the present time sites of many central banks including the site of the National Bank publish quarterly indexes of the financial stability of the financial sector of economy. In correspondence with the International monetary fund guidance financial stability indicators can be used for solving the following tasks:

1) Assessment of the risk of a shock to the financial sector. Among the tools available are indicators used in early warning system (EWS) models. These indicators are typically based on country-specific data, developments in the global economy, and political risk.

2) Assessment the vulnerability of the financial sector to shocks; assessment the condition of nonfinancial sectors; monitoring the financial sector vulnerabilities arising from credit, liquidity, and market risk; and (4) assessment the capacity of the

financial sector to absorb losses, as measured by capital adequacy.

3) Analysis of macrofinancial linkages to obtain an indication of the effect on macroeconomic conditions, debt sustainability, and impairment in the intermediation capacity of the financial sector.

4) Surveillance of macroeconomic conditions to assess the effect of shocks on macroeconomic developments and debt sustainability.

It should be noted that indicators of financial stability can be used in early warning systems relative to possible financial stresses. Along with this in scientific literature various drawbacks are defined connected with the use of financial stability indicators, like numerous indicators, some of which duplicate each other; differently directed indicator changes; all that makes it more difficult to distinguish general and other tendencies in their dynamics.

Besides, for maintaining stability of the financial sector functioning the interrelation of presently used indicators of financial stability with financial imbalance indexes should be understood.

In this respect we would offer conducting factor analysis that will allow expressing interrelations between accumulated financial imbalances and financial sector stability to shocks. It should be noted that at present moment statistics on financial stability indicators comprising a little more than 70 countries is regularly published on the IMF site.

An important component of the research is the time period for analyzing financial stability indicators and the level of imbalances in the financial sector of economy. Based on the previously obtained results of the research it was found out that the period of significant imbalance formation covers the interval from 2006 to 2008.