THE ROLE OF BANKING SECTOR FOR STATE'S FINANCIAL STABILITY

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In terms of global economic disparities caused by financial market instability, the problem of financial security of every state becomes of primary actuality. As being the key intermediary between real and financial sector, banking sector plays an incontestable role in preserving external financial shocks and ensuring the financial security of the state in order to protect the entire economy the consequences. In order to elucidate the domestic banking system efficiency in the distribution of funds in the economy and ensuring stability of the state is analyzed and characterized the evolution of the main banking indicators. As results are determined the main threats regarding the security of the banking sector and measures to reduce their impact are given conclusions and recommendations for minimizing the influence of risk factors.

Key words: *financial security, banking sector security, banking system stability.*

În condiţiile unor dezechilibre economice globale provocate de instabilitatea pe piaţa financiară problema asigurării securităţii financiare a fiecărui stat în parte capătă o actualitate primordială. Sectorului bancar, în calitate de intermediar primar între sectorul real şi cel financiar îi revine un rol indubitabil în procesul de menţinere a şocurilor financiare externe şi de asigurare a securităţii financiare a statului în vederea protejării întregii economii de consecinţele acestora. În scopul elucidării eficienţei sistemului bancar autohton în redistribuirea fondurilor în economie şi asigurarea stabilităţii financiare a statului este analizată şi caracterizată evoluţia principalilor indicatori bancari. Drept rezultat, sunt determinate principalele ameninţări în adresa securităţii sectorului bancar şi măsuri de reducere a impactului lor, formulate concluzii şi recomandări pentru minimizarea riscurilor de influenţă a factorilor adverşi.

Cuvinte cheie: *securitate financiară, securitatea sectorului bancar, stabilitatea sistemului bancar.*

В условиях нынешних глобальных экономических дисбалансов, вызванных нестабильностью финансового рынка, проблема обеспечения финансовой безопасности каждой страны в отдельности очень актуальна. Банковский сектор в качестве основного посредника между реальным и финансовым сектором играет, несомненно, первичную роль в защите экономики от внешних и внутренних финансовых потрясений и обеспечении финансовой безопасности государства. Для того чтоб определить эффективность отечественной банковской системы в перераспределении средств в экономике и обеспечении финансовой стабильности государства проведен анализ и характеристика основных банковских показателей. В результате чего были определены основные угрозы безопасности банковского сектора и предложены меры по снижению их воздействия, а так же рекомендации по минимизации факторов риска.

Ключевые слова: *финансовая безопасность, безопасность банковского сектора, стабильность банковской системы.*

JEL Classification: G20; G21; G29

Nowadays. The structure of modern market economy has changed a lot during the last decades. Globalization and advanced IT technologies development creates not only great opportunities for the speedy economic development but also brings serious threats to the security, integrity and economic development of independent states. The main warning is the risk not to integrate to the dynamic flow of these processes, which leads to the transformation of the national economy into a developed one, open for investments and externally competitive.

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Thus, it leads to the significance and importance of the insurance of national and economic security problem. One of the most important aspects of the economic security of a state is its situation on financial sector, its capacity to finance the necessities and with acceptable conditions with financial resources all the financial actors of economy, including governmental agencies. Thus, it has to accomplish fully its main functions for the states' economy. A states' financial system should ensure the existence of a "safety margins" for unusual and extraordinary situations, in order to offer a useful break to reply at threats and to prevent, correct or at least mitigate potential economic-social lost. This beak is useful, especially for public authorities and other economic agents.

Financial security and banking sector. Generally, the problem of ensuring the financial security of the state is an important object of study in the academic world in the research of various economic relations. Financial security is the central element of economic and national security. Studying financial security is aimed to identify and pursue a wide range of determinants of banking system stability, which are revealed dangers and raw places within its operation for a better structure and transparency of the operation of all elements of the system.

Government financial security refers to the ability of a financial system to function and grow gradually, to the extent that can withstand shocks from international financial markets. Professional literature defines two specific types of financial security. The first type of security implies a financial system whose monetary system and financial market will maintain their ability to function normally and to develop safely under various international shocks [1]. The second type of financial security requires financial system's ability to resist to external attempts of breach to "financial independence" of the state, by limiting access of foreign financial institutions on local financial markets and the establishment of contribution rates for them. This type of financial security indicate the extent to which financial institutions and domestic financial market can be influenced by international capital markets, and involves two types of manifestation of external threats: one economic and the other one related to the weakness of financial autonomy.

Thus, financial security involves a protection system that would not allow external financial or political factors to arbitrate the sustainability and constant functioning of financial intermediate institutions that are able to organize and modify capital to areas with maximum efficiency. Financial security is an essential attribute of national independence and an essential component of economic security of the state.

A special place in the country's financial system belongs to the banking system; it interacts directly with all sectors of the national economy, solve the main problem of redistribution of funds between individuals and companies, between different branches of national industry and attracts investment for the implementation of innovative programs, including the state ones, etc. Efficient activity of banking system is the main factor of stability and economic security of the country. Ensuring financial stability and security of the state banking system is the major task of the central bank and banking supervision services. Banking system security is important for ensuring economic security of the country, as to its deep dissemination in all domains of economic and social life of the state.

Any deficiency for ensuring the financial security of a banking institution may cause serious distortions in the financial system of the country but also in all branches of the national economy. Thus, the relevance of addressed problem regarding the investment of banking sector with not only key functions of efficient investment process ensuring responsible and sustainable and competitive economic growth guarantee globally national economy and national financial security.

Moldova banking sector evolution. In the last 2 decades, Moldova has experienced dramatic changes in the structure of capital, regulation, trade practices and in the structure of economy. Reformation, with major implications in the economy of the new, independent state was the most important task.

Since 1991, the banking system of Moldova is in constant transformation and improvement, and during more than 20 years has registered significant progress. Banking legal framework includes all aspects of commercial banks and central bank activity, it sets the segment of relationships, and responsibilities between financial institutions and customers, it organizes and monitors the comprehensible banking process. The banking operations internationalization and the penetration of foreign capital into domestic banking system started the process of banking regulation compliance with international requirements and it alignment with European best practices by implementing requirements for financial market stability provided by the IMF and the provisions of the Basel agreements.

Financial stability is maintained by suitable regulations of current and potential risks, by effective management of administrative mechanisms and by risk redistribution and ensuring public reliability in financial system.

Those mentioned above have caused the establishment of a competitive, progressive domestic banking system. However, the country's banking system is inefficient, as it does not cover the economic needs, which could create disparities in the financial security of the Republic of Moldova.

The inadequacy domestic banking system in the redistribution of funds in the economy can be shown by following indicators:

1) The bank assets share to GDP in Moldova is considered by low financial intermediation effect. In developed countries, this figure rises to a level above 100%, while in Moldova despite a steady increase from 29% to 89% in the period 2000-2014, except for the years 2010 to 2011, years in which it decreased (see figure 1) stays at the low level. For example, in 2011 in Germany this indicator was 326%, in Austria – 336%, in Netherlands – 402%, France – 420% [2].

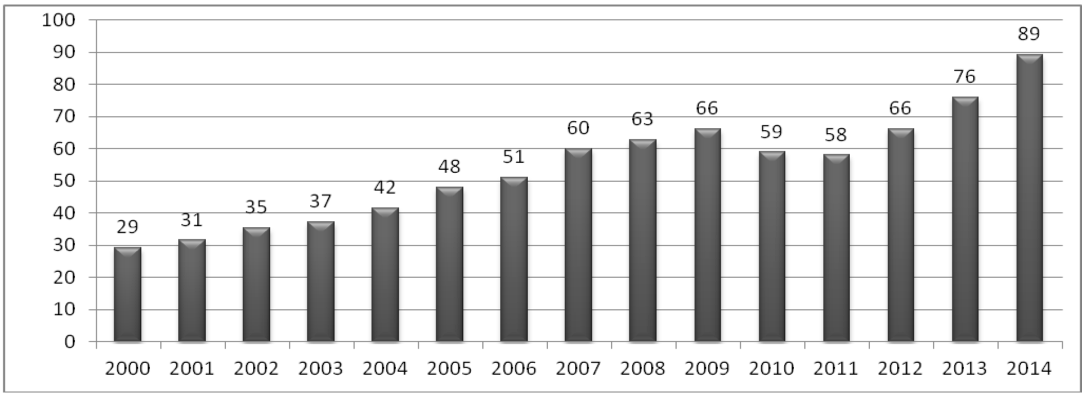

Fig. 1. The share of bank assets to GDP, %

Source: BNM, BNS.

2) The bank credit share to GDP is one of the most important indicators of banking sector development because it shows the real sector access to finance which is an important factor for economic development based on investments. The value of this indicator in Moldova shows insignificant contribution of the banking sector in the country's sustainable economic growth (see Figure 2).

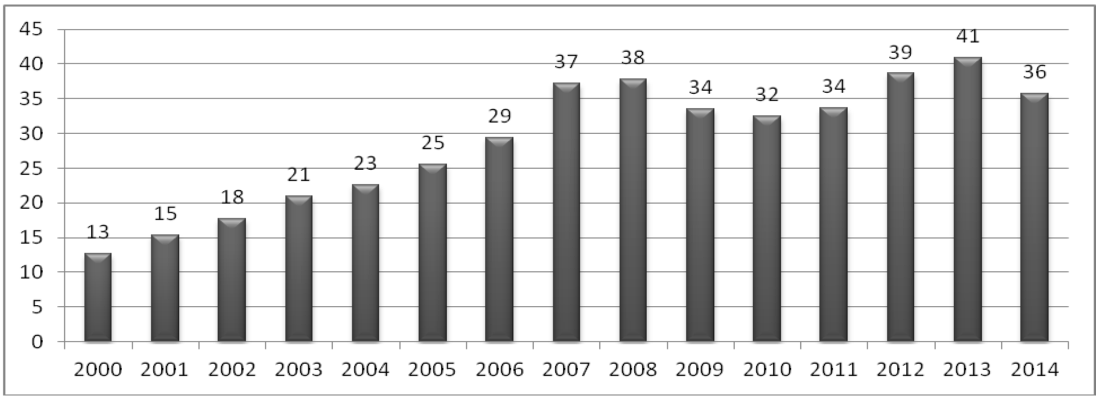

Fig. 2. The loans share in GDP, %

Source: BNM, BNS.

Because of the banking sector passivity, investment level in Moldova is several times lower than in other countries with a similar economy but with a higher dynamic development [3]. In such a situation, the banking system cannot provide cheap long-term investment resources for the economy' real sectors, its lack cannot address the issue of sustainable economic development, GDP growth, entrepreneurship development etc.

Banking sector security, influencing factors and threats. Banks enter in a very organic manner into the activity and regulation mechanism of economic activity. They interacts with the budgetary process, tax system, and pricing and revenue policy, foreign trade conditions.

Ensuring the sustainability of the banking sector depends on many factors: financial situation in real sector, fiscal policy, a number of other equally important processes that go further than banking activity (see Figure 3).

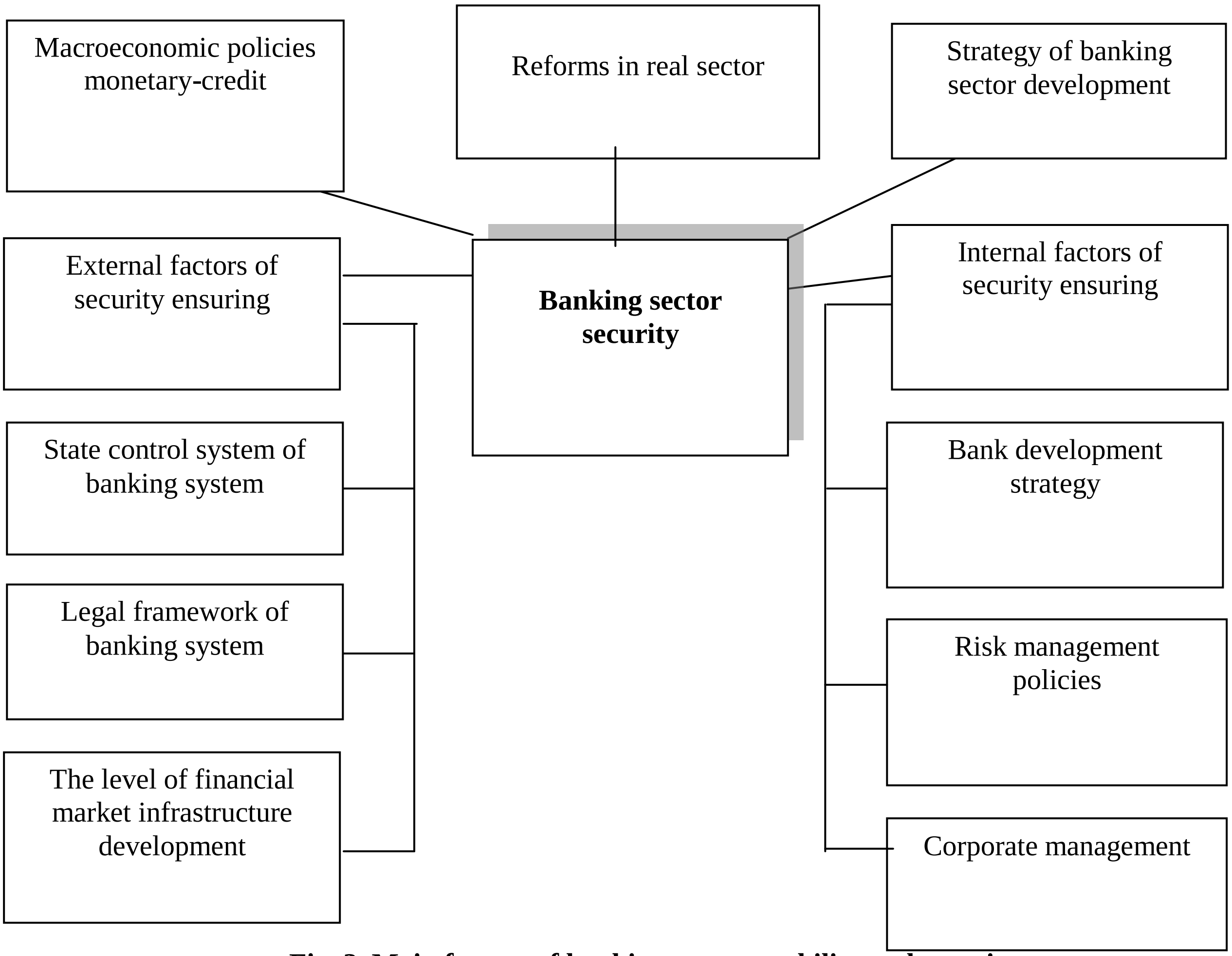

Fig. 3. Main factors of banking system stability and security

Source: Done by author based on [4].

Theoretically, banking sector role in ensuring the financial security of the state is determined by the possibility of its concentration of a large number of threats and risks for economic security and as well, it has a deep infiltration in ensuring the financial interests for the whole economy and businesses and specific organizations. Therefore, the banking sector is an obligatory element that unites and creates opportunities for the interactions of various sectors of the economy; domestic and foreign enterprises, economic interests and the interests of different stakeholders as well as the interests of the country with the global community.

At the same time, as experience proves, the banking sector can work a period in a relative independent sense as to the course of real economy development. The stronger banking system is, the more it will resist to shocks and will work on inertia for a longer period. Thus, the evolution of economic indicators can record opposite parameters of banking system development trends for a certain period. On the other hand, in periods of economic recovery, banking indicators could return to previous levels crisis slower than the real economy.

Even in conditions of high rates of national economy branches profitability, the dynamics of the banking sector, capital market, investment and financial system will record slower indicators, which is due to the massive influence of other factors. The most important factor is a higher expected inflation size and the size of the "shadow economy".

Other factors that may be listed are: "outflow" of foreign capital, evasion of taxes, custom duties, excise duties, etc.; "washing" illegally obtained funds through banks; thefts and misuse of budget funds; underestimating the value of the national wealth; absorption of national companies and entire industries by foreign corporations; inefficient use of reserves and national financial resources.

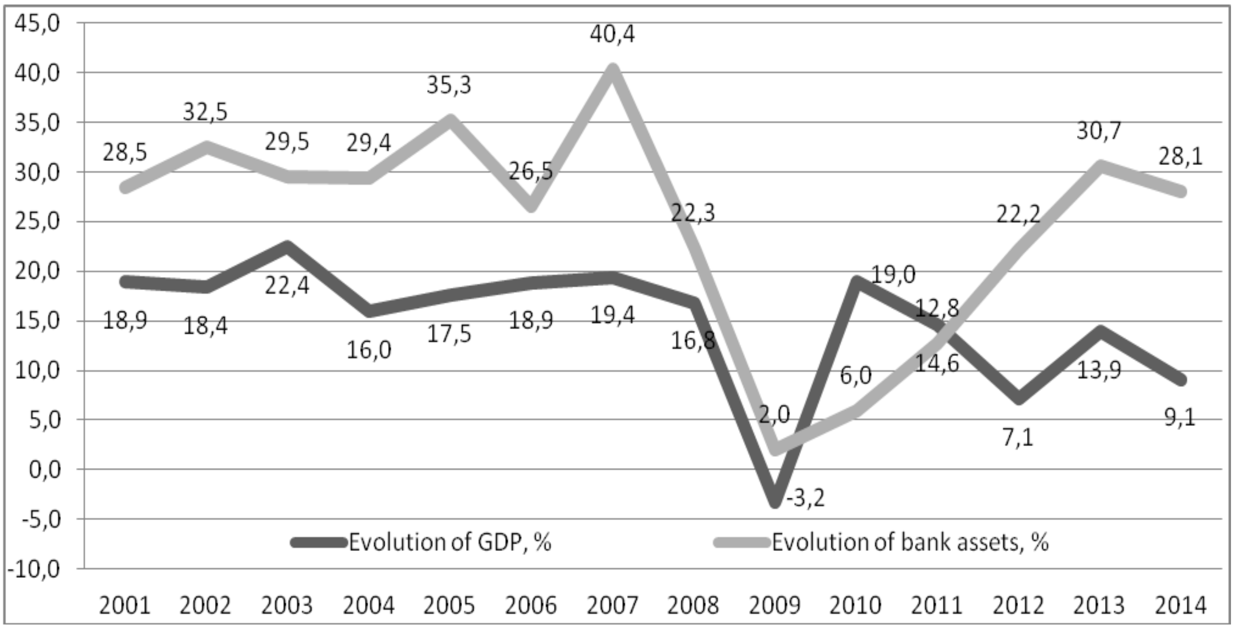

Fig. 4. Linking growth evolution of GDP and bank assets in RM, %

Source: BNM, BNS.

All these factors, affect somehow the efficiency of the financial system. However, in order to achieve a certain level of qualitative changes in the economy (both positive and negative) banking sector growth course will inevitably headed in the same direction as the economy as a whole (*see figure 4*). This phenomenon links to significant threats. During the "relative prosperity" of the banking sector on the background of the negative processes in the real economy, the banking system manages to lose the importance of its functions to directly integrate the interests of all economic agents and cannot affect the threats prevention and offset to those interests. Thus, the banking system is not only a self-destroyer but also becomes a performer, a channel of threats for economic security of the country. Especially, the registered negative trends in the activities of this system have multiplier character and a significant impact on all economic processes.

Thus, the key position held by the banking sector in ensuring sustainable economic growth had its main role in financial and economic security of the state. The organization and stability of the banking system is one of the basic conditions for economic and financial security of the state, stamping at the same time the efficiency of promoted monetary and financial policies.

The main economic factors that influence financial security of a country and its banking sector are the following:

• State political and economic stability, as well as of its neighboring states, with who are maintained significant political and economic relations;

• National currency and promoted economic policies stability;

• The structure of financing sources of banking system, the share of internal and external financing sources;

• The concentration level of banking assets in financial institutions;

• The concentration level of banking assets in certain sectors of the economy;

• The structure of banking institutions' owners;

• The existence of an effective banking supervisory body;

• Low limit of deposit guarantee;

• Diminished liquidity of bank assets.

What about the banking institutions, there may be mentioned certain factors that may cause distortions and imbalances for banking security, as well as mitigation possibilities. Depending on the identified risk, below you may see a try of their structure:

Table 1

Threats of the banking sector security and impact mitigation measures

Factors of appearance	**Identified risks**	**Measures to reduce the negative impact**
Rapid and unexpected withdrawal of a significant amount of money from banks by a group of depositors can damage bank's ability to pay.	Immediate liquidity risk	Financial institution liabilities diversification for bank solvency regardless of foreseeable behavior of depositors.
Blocking bank assets by other financial institutions.	Counterpart risk	Opening correspondent accounts only in financial institutions with unblemished image. Permanent monitoring of their financial situation and their political relations.
Minimizing fraud ability of big debtors' to pay bank by bankrupting on purpose, may reduce the bank's ability to pay.	Credit risk associated with big borrowers	Monitoring and assessment of bank representatives for large borrowers' management.
The institutions credibility and smooth operation of their services can be threatened by media attacks of information sources in order to discredit the banking institution.	Risk of image	Promoting permanent image bank transparency and financial situation of the bank activity.
Political influences on free capital movement (management account of state enterprises and state organizations, state funds, etc.).	Country risk	Ensuring the independence of monetary funds or minimizing dependence on political, legal provisions in operations of this kind.
Bank elimination from the market of some bank services.	Competitive risk	Achieving a balanced pricing policy, regional economic integration of bank projects.
Banking market dumping.	Risk of product	Continue recovery of bank efficiency and minimizing costs of banking services.
Loss of trained personnel with key functions or their migration to other competing banks.	Risk of personal	Promoting a flexible frame, corresponding staff remuneration and providing social protection to all employees.

Source: Done by author.

Conclusions and recommendations. Under current conditions for minimizing risk factors, banks should clearly define priorities and strategic partners, continuously monitoring their financial and political activity. From the central bank, it is required a continuous qualitative improvement of supervising banking institutions process.

In order to reduce the influence of media sources to spread false information it would be useful to strengthen the role of central bank in communication and dissemination of information regarding the financial stability, which would be an estimation of banking system financial situation.

Many factors create weakening the financial system and requires Central Bank involvement in all directions:

1) The central bank using its regulatory and supervisory mechanisms may result in: increase confidence in the banking system and promoting savings and investments; return of shadow economy funds into the banking system; improve stability and confidence in the national currency etc.

2) Legislative component, banking market regulators should increase their work for improving the quality of regulatory acts of financial market activity.

Thus, the financial security of the banking sector lies not only on financial institutions but on Government, as well, by promoting systemically and continuously analytic, regulatory and macroeconomic measures.

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