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PROSPECTS OF IMPLEMENTATION OF EUROPEAN PRACTICE OF FINANCIAL IMBALANCES REGULATION IN UKRAINE

Abstract. In the article it is noted that the trigger for the emergence of financial instability is the accumulation of financial imbalances the spread of which leads to increasing vulnerabilities in the financial system, violation of its stability and reduce the level of financial security. The interrelations between financial imbalances, financial stability, financial instability, financial vulnerability, financial security, financial crisis are outlined. The article is aimed at determining key indicators in assessing the level of existing financial imbalances and developing a set of measures to resolve disequilibrium in the domestic financial system, taking into account European practice. The domestic practice of financial imbalances disclosure was summarized which gave the opportunity to justify the conclusions on ineffectiveness of the methods used in Ukraine, that allow only identify already existing threats in the financial system. The experience of European countries is examined, where the practice of identification of potential signals of financial imbalances is widely used, in particular, to identify imbalances in the economies of the EU the macroeconomic imbalances procedure was approved. The main indicators in assessing the level of existing financial imbalances are determined. Some contradictory aspects of applying macroeconomic imbalances procedures within the EU are identified. It is noted that the necessity of providing financial stability is a priority task of the economic policy of each state, because a stable financial system has the ability to restrict and eliminate disparities through self-regulation mechanisms before they lead to a crisis. Priority directions of development of the state system of financial imbalances regulation in Ukraine are proposed: legislative provision of comprehensive and systematic monitoring of financial imbalances; preparing the necessary array of statistical information; delegating the authority of evaluating financial imbalances and developing measures for their regulation by a unit of the government institution.

Keywords: financial imbalances; financialisation; Macroeconomic imbalances procedure; indicators of imbalances; government regulation.

JEL Classification: G28, G38, H10

Formulas: 0; fig.: 2; tabl.: 1; bibl.: 16.

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ПЕРСПЕКТИВИ ІМПЛЕМЕНТАЦІЇ ЄВРОПЕЙСЬКОГО ДОСВІДУ РЕГУЛЮВАННЯ ФІНАНСОВИХ ДИСБАЛАНСІВ В УКРАЇНІ

Анотація. Зазначено, що тригером виникнення фінансової нестабільності є накопичення фінансових дисбалансів, поширення яких призводить до збільшення вразливості фінансової системи, порушення її стійкості та зниження рівня фінансової безпеки. Окреслено спільні риси, відмінності та взаємозв'язки між фінансовими дисбалансами, фінансовою стійкістю, фінансовою нестабільністю, фінансовою крихістю, фінансовою безпекою, фінансовою кризою.

Визначено основні індикатори оцінювання рівня наявних фінансових дисбалансів і розроблення комплексу заходів щодо врегулювання диспропорцій у вітчизняній фінансовій системі з урахуванням європейського досвіду. Узагальнено вітчизняну практику виявлення фінансових дисбалансів, що дало змогу обґрунтувати висновки щодо неефективності використовуваних в Україні методик, які дозволяють ідентифікувати лише вже наявні загрози у фінансовій системі. Розглянуто досвід європейських країн, де поширена практика ідентифікації потенційних сигналів фінансової розбалансованості, зокрема задля виявлення диспропорцій в економіках країн ЄС затверджено Процедура макроекономічних дисбалансів. Визначено основні індикатори оцінювання рівня наявних фінансових дисбалансів. Виявлено суперечливі аспекти застосування Процедури макроекономічних дисбалансів у країнах ЄС. Зазначено, що необхідність забезпечення фінансової стабільності є першочерговим завданням економічної політики кожної держави, адже стабільна фінансова система має здатність обмежувати й усувати диспропорції за допомогою механізмів самокоригування, перш ніж вони призведуть до виникнення кризи. Запропоновано першочергові напрями розбудови системи державного регулювання фінансових дисбалансів в Україні: законодавче забезпечення комплексного і систематичного моніторингу фінансових диспропорцій; підготовка потрібного масиву статистичної інформації; делегування повноважень із оцінки фінансових дисбалансів і розроблення заходів щодо їх регулювання підрозділу установи державної влади.

Ключові слова: фінансові дисбаланси; фінансіалізація; Процедура макроекономічних дисбалансів; індикатори дисбалансів; державне регулювання.

Формул: 0; рис.: 2; табл.: 1; бібл.: 16.

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ПЕРСПЕКТИВЫ ИМПЛЕМЕНТАЦИИ ЕВРОПЕЙСКОГО ОПЫТА РЕГУЛИРОВАНИЯ ФИНАНСОВЫХ ДИСБАЛАНСОВ В УКРАИНЕ

Аннотация. Рассмотрен опыт европейских стран относительно практики идентификации потенциальных сигналов финансовой разбалансированности, в частности для выявления диспропорций в экономиках стран ЕС утверждена Процедура

макроэкономических дисбалансов. Определены основные индикаторы оценки уровня имеющихся финансовых дисбалансов. Выявлены противоречивые аспекты применения Процедуры макроэкономических дисбалансов в странах ЕС. Предложены первоочередные направления развития системы государственного регулирования финансовых дисбалансов в Украине.

Ключевые слова: финансовые дисбалансы; финансиализация; Процедура макроэкономических дисбалансов; индикаторы дисбалансов; государственное регулирование.

Формул: 0; рис.: 2; табл.: 1; библи.: 16.

Introduction. The scientific debate about the nature and issues of imbalances in the economic system is one of the most pressing both for individual states and international organizations, as understanding the causes of instability of national economies can prevent spreading negative fluctuations to the functioning of the global economy.

Modern economics sees the root cause of the manifestation of the crisis phenomena in the emergence and accumulation of financial imbalances resulting from the discrepancy between the real and financial sectors of economy.

In the scientific literature such process is named “financialization”, i.e. “the transformation of the directions of movement of financial resources (cash funds created in the process of distribution, redistribution of national wealth) by their reorienting from maintenance of commodity relations in the real sector of economy to generating higher potential economic benefits in the financial sector” [1, p. 88]. Thus, deviations causing excessive build-up of the financial sector, in fact, are financial imbalances. In contrast, the balanced development of the financial sector can more effectively allocate the available resources and promote economic growth.

Research analysis and problem statement. The following foreign scientists conducted their researches on this issue: O. Blanchard (2009) [2], C. Borio (2004) [3], P. Krugman (2009) [4], F. Lowe (2004) [3], H. Minsky (1992) [5], F. Mishkin (1999) [6] etc. Among native scientists it is worth mentioning N. Kravchuk (2014) [7], V. Kozyuk (2007) [8], M. Korneev (2015) [1], O. Lunnyakov (2013) [9], N. Shumska (2015) [10] and others. In particular, N. Kravchuk [7] pays considerable attention to the conceptual basics of global financial imbalances M. Korneev [1] studies the impact of imbalances of financial resources movement on the financial and real sectors of the economy. O. Lunnyakov [9] explores the imbalances of the financial sector, which, according to the scientist, are somewhat narrower concept unlike financial imbalances. N. Shumska [10] studies macroeconomic imbalances and evaluates imbalances in economic development of Ukraine in accordance with European Union practice.

However, Ukraine has no formalized approach to identification of financial imbalances, and most of the theoretical achievements are focused on measures aimed at resolving financial instability that is already the result of the accumulation of excessive imbalances.

The research objective is determining key indicators in assessing the level of existing financial imbalances and developing a set of measures to resolve disequilibrium in the domestic financial system, taking into account European practice.

Research results. Western scientific thought uses the term “imbalance” for determining the concept of disequilibrium, which means “the absence of equilibrium, instability, discrepancy” [11, p. 914].

In the Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances the term ‘imbalance’ means any trend giving rise to macroeconomic developments which are adversely affecting, or have the potential adversely to affect, the proper functioning of the economy of a Member State or of the economic and monetary union, or of the Union as a whole [12]. Such interpretation clearly characterizes imbalances as negative changes in the economy.

Therefore, emerging and accumulating of financial imbalances lead to increased vulnerability of the financial system, the violation of stability and financial security, as manifested in its inability to self-regulation and ensuring the efficient allocation of public resources in case of

changes in economic conditions.

Under the influence of external shocks, the financial system passes into a state of instability and in the absence of effective action — into financial crisis. Where the amount of accumulated financial imbalances is critical in many areas of the financial system, the crisis comes even without the effect of external shocks, avoiding the period of financial instability (Fig. 1).

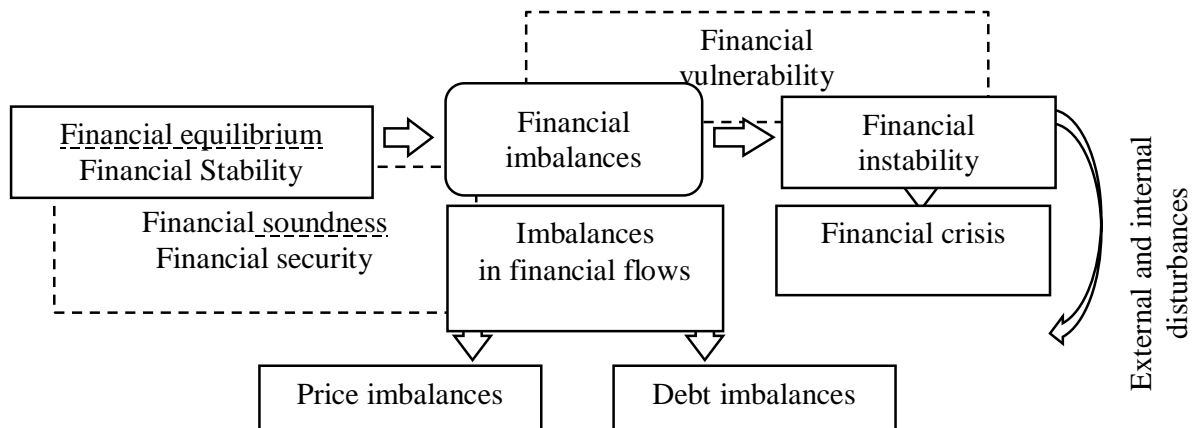


Fig. 1. Financial imbalances and their relations with financial system condition*

* Developed by the authors

In Ukrainian practice, like in foreign one, an assessment of the financial system condition is carried out and deviations that may threaten its operation are detected. The level of financial security of Ukraine is calculated using a number of indicators established by the Order of the Ministry of Economic Development and Trade of Ukraine "On Approval of the methodology for determining the level of economic security of Ukraine" of 29.10.2013, number 1277. Each group of indicators characterizes a particular sector of the state financial system (banking, non-banking financial sector, debt, budget, currency, monetary sector) [13].

In addition, as recommended by the IMF, Ukraine conducts an assessment of the financial stability indicators — indicators of the current financial condition and stability of financial institutions and their counterparts from the sector of non-financial corporations and households. The data contain the information on the main indicators of financial stability of depository corporations (banks) on capital adequacy, asset quality, profit and profitability, liquidity, sensitivity to market risk and recommended indicators of financial stability, as well as basic data for their compilation. Indicators of financial stability give the idea of the markets, where financial institutions carry out their activity.

However, the above mentioned methods used in Ukraine, reveal only the already existing threats to the financial system. Having analyzed foreign researches on this issue, we note that in developed countries, instead, a practice of identification of potential financial imbalances signals, which are mainly associated with price disparities.

In order to identify imbalances in the economies of the European Union in 2011 the Macroeconomic imbalances procedure was approved (Macroeconomic Imbalances Procedure — MIP) [14], which is a mechanism for monitoring potential macroeconomic risks. To identify negative deviations in the economy of a Member State of the European Union a list of 11 indicators and their limit values is used that characterize the main sources of macroeconomic imbalances (Table 1).

The following indicators allow evaluate existing financial imbalances: net international investment position (NIIP), real effective exchange rate (REER), the consolidated private sector debt (PSD), private sector credit funding (PSCF), general government debt (GGD), total financial sector liabilities (TFSL).

Table 1

Indicators of macroeconomic imbalances in EU countries

Indicator	Limit value
External indicators	
3 year average of Current Account balance, % GDP (CAB)	-4 — 6
Net International Investment Position, % GDP (NIIP)	< -35
Indicators of competitiveness	
% change (5 years) in Export Market Shares, % (EMS)	< -6
% % change (3 years) in Nominal ULC, % (NULC)	> 9 for EU countries and > 12 for the others
% change (3 years) of Real Effective Exchange Rates with HICP deflators, % (REER)	± 5 for EU countries and ± 11 for the others
Internal indicators	
Private Sector Debt (consolidated), % GDP (PSD)	> 133
Private Sector Credit Flow, % GDP (PSCF)	> 14
Year-on-year changes in House Prices relative to a Eurostat Consumption Deflator, % (HP)	> 6
General Government Debt, % GDP (GGD)	> 60
3 year average of Unemployment Rate, % (UR)	> 10
Year-on-year changes in Total Financial Sector Liabilities, % (TFSL)	> 16,5

Source: MIP Scoreboard [Electronic source] / Official site of the European Commission. — Retrieved from: http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/mip_scoreboard/index_en.htm.

The main task of Macroeconomic imbalances procedure is to identify potential risks at an early stage, preventing the negative effects of macroeconomic imbalances and adjustment of existing imbalances.

In case of failure to fulfill the plan of corrective actions or failure to comply with it is provided applying sanctions to a Member state-violator.

According to the results of Macroeconomic imbalances procedure it is possible to determine four categories of imbalances:

1. Absence of imbalances.
2. Presence of imbalances: imbalances requiring political measures and monitoring; imbalances requiring resolute political measures and monitoring; imbalances requiring resolute political measures and specific monitoring.
3. Excessive imbalances: excessive imbalances requiring resolute political measures and specific monitoring.
4. Excessive imbalances with a plan of corrective measures [15, p. 32].

In 2016 the program of corrective measures was applied to two countries — Greece and Cyprus. Excessive imbalances procedure has never been used before.

It is worth emphasizing that introducing Macroeconomic imbalances procedure has some controversial aspects.

Firstly, the application of Excessive imbalances procedure requires further revision as the criteria of its use are unclear. Secondly, it is necessary to refine the selection of imbalances indicators and their ranking for conducting in-depth review. Thirdly, the mechanism of applying sanctions requires explanation. Furthermore, as D. Bobyeva reasonably notes, Macroeconomic imbalances procedure does not fully take into account the level of economic development of the countries, which can lead to false conclusions [16].

Development and introduction of similar to European procedure of identifying macroeconomic imbalances in Ukraine will allow identifying potential threats and risks of the domestic economic system, in particular one of its most important components — financial one.

The emergence and spread of financial instability in Ukraine are largely due to excessive

expansion of credit activity of institutional sectors and their accumulation of debt liabilities that ultimately negatively affected the economic growth, as the high level of debt increases the vulnerability of private agents to possible price shocks and financial instability. Uncertainty about the ability of the private sector to service and repay debt significantly affects the quality of bank assets and lending conditions. A significant level of indebtedness of private borrowers reduces their economic activity as the main attention is focused on aligning their balance sheets rather than on maximizing profits and expansion of activities.

The result of excessive accumulation of financial imbalances ultimately becomes an "overload" of economic agents' balance sheets by excessive debt liabilities, which eventually leads to their bankruptcy and subsequent igniting of "debt spiral" because bankruptcy in the sector of non-financial corporations and households negatively affects the performance of financial sector whose activity becomes unprofitable or, at worst, totally paralyzed. As a result, the reduction of the private sector's activity begins negatively affecting the fiscal sphere of a state where simultaneously with a decrease in tax revenue it becomes necessary to increase government spending to support the socio-economic balance in society. Therefore, a budget deficit arises inevitably, financed mainly at the expense of lending operations, which leads to the formation and accumulation of public debt, which in terms of inefficient use of borrowed funds over time can also be an additional factor of financial instability.

Thus, development of the procedures of financial imbalances identification is only a partial measure for the economy of Ukraine since the identification of imbalances must be accompanied by a set of appropriate measures for their control. To do this, in our opinion, it is necessary to build a system of regulation of financial imbalances (Fig. 2).

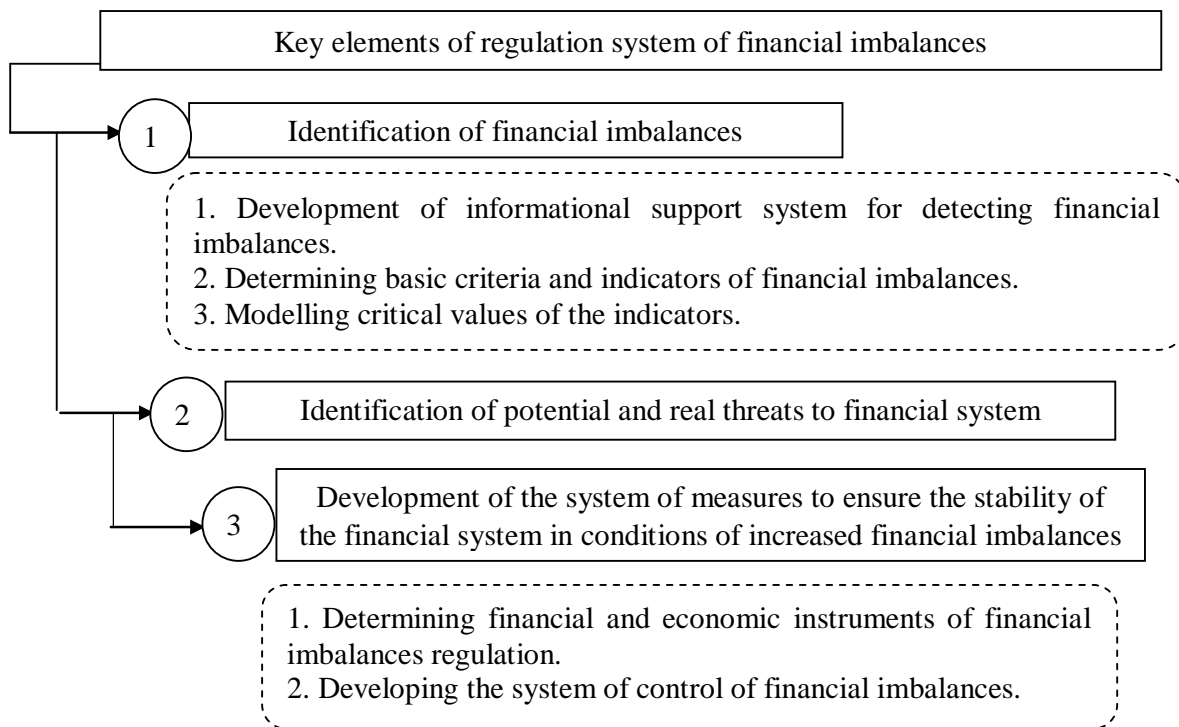


Fig. 2. Financial imbalances regulation system*

*Developed by the authors

The main task of ensuring the functioning of the regulation of financial imbalances must rely on state regulatory authorities. In exercising state regulation of financial imbalances a set of measures for the maintenance of financial stability of the economy as a whole, the implementation of the general rules of behavior of these entities, preventing violations and abuses of a financial nature takes on a particular significance. In this context it is necessary to establish a series of regulatory requirements by the state.

Conclusions. Summarizing the conducted research, it should be emphasized that the emergence and accumulation of financial imbalances is a direct threat not only to the public finances of any country. Such phenomena are a danger for the banking sector, currency and investment markets, the state balance of payments. The need to develop and implement detection of possible threats to the financial security of the state is evident as early detection of financial crisis determinants gives the opportunity to provide prompt corrective changes to current financial policy.

Ukrainian practice has not clear, formal approach to identify and assess the level of financial imbalances. That is why the experience of the European Union to introducing mechanisms to monitor the potential risks is important in the context of preventing new financial imbalances. The primary steps in this direction should be: legislative provision of comprehensive and systematic monitoring of financial imbalances; preparing the necessary array of statistical information; delegating authorities of valuation of financial imbalances and developing measures for their regulation to a unit of a government agency (e.g. the Ministry of Finance of Ukraine or the National Bank of Ukraine).

Prospects for further research are determining critical values of indicators of financial imbalances for the national economy and assessment of opportunities and effects of the implementation of foreign experience of state regulation of economic development.

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- Стаття рекомендована до друку 03.12. 2018* © Сідельникова Л. П., Булюк В. В., Новосьолова О. С.

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The article is recommended for printing 03.12.2018

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