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CONSEQUENCES OF THE GLOBAL FINANCIAL AND ECONOMIC CRISIS FOR UKRAINE, ANTI-CRISIS MEASURES

In the article the modern development of the developed countries' banking sectors is analyzed. Main banking crisis preconditions and consequences are examined. Key features of the banking crisis and anti-crisis measures are substantiated.

Keywords: global financial and economic crisis, consequences of the global crisis and anti-crisis measures.

Introduction. The impact of the world financial crisis has demonstrated the inability of the banking system of Ukraine to counteract the crisis challenges, to adjust to changing market conditions and revealed the potential risk of the destabilization. In this sense, today the problem of defining the global financial crises' preconditions and consequences is extremely important for the banking system of Ukraine. The current situation in the banking industry requires the anti-crisis measures implementation at the macro and micro levels. In such conditions, the role of banking institutions as a part of the banking system is growing. Therefore, every bank in the country must have the stabilization program.

A crisis has a dual nature. It destroys and creates conditions for the further development at the same time. According to this theory, the integration of a country into the world financial and banking system means higher sensitivity of this country to external shocks. As a result the country implements more effective anti-crisis measures to minimize crisis effects and to create the basis for the sustainable development.

Existing publications on the problem. The problem of the financial instability is analyzed in the works of L. Abalkin, O. Baranovsky, I. Burakovsky, A. Galchinsky, V. Geets, A. Grytsenko, A. Greenspan, A. Griaznova, L. Drobozina, P. Krugman, V. Mazurenko, V. Mishchenko, J. Pahomov, G. Soros, J. Stiglitz, V. Fedosov, A. Filipenko, A. Chuhno etc. But at the same time there is a lack of complex researches on the preconditions, factors and the impact of the global crises on emerging markets.

The main goal of the article is to examine the nature, preconditions, key features of financial and economic crises and to analyze foreign experience of anti-crisis measures taking into consideration the Ukrainian realities.

Main results. Global financial crisis, started from the mortgage market crash at the end of 2006 in the USA, gradually covered all the countries in the world. According to the estimates, it became the largest crisis after the Great Depression of 1929 – 1933. The losses of the financial sector and a sharp decrease in trade volumes led to the GDP decline in developed countries (2-10%). The non-diversified economies have appeared to be the most vulnerable in the conditions of the global financial crisis due to their dependence on the foreign capital inflow and narrow specialization. In such countries one or two products accounts for 70 percent of total export, 50-70 percent of budget revenues. The crisis triggers drastic negative changes in the equity mar-

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kets, capital outflow, payment problems and exchange rates' declines. The crisis appears to be deeper in developing countries than in developed economies it comes from. And in developing countries the economic recovery starts much later, in 12-15 month, following the recovery of developed economies [4, c. 22–25].

In the USA the peak of the financial crisis fell on September 2008, caused by the bankruptcy of the Lehman Brothers Holdings Inc., the \$50 bln acquisition of Merrill Lynch (in 2007 its market value accounted to \$100 bln) by Bank of America, Goldman Sachs and Morgan Stanley shares' price collapse (25% and 14% decline accordingly), the threat of AIG bankruptcy [7, c.20–29].

Financial and industrial sectors of the Ukrainian economy have also been affected by the global financial turmoil. It led to the output decline, the growing instability in the banking sector, the domestic currency devaluation, an increase in LIBOR, the gross debt growth, the sovereign rating deterioration.

At the beginning of the US mortgage crisis Ukrainian scientists argued about the crisis consequences for the financial system of Ukraine. Some economists declared that there was no threat for the Ukrainian financial system because of the absence of US mortgage bonds in the national commercial banks' portfolios due to low level of the equity market development in Ukraine. Other scientists considered that the foreign capital share in the banking system was sufficient to become a crisis conductor [5; 7; 10; 14].

According to the estimates of the International Monetary Fund, the former USSR countries experienced the deepest crisis consequences. Nevertheless, in 2010 the CIS economies are expected to grow by 2 percent. In the conditions of the global financial crisis these countries suffer from three large shocks: financial shock; developed countries' demand decline; decreasing commodity prices, energy resources prices. The IMF reports that Ukraine is one of the most crisis affected countries in the CIS region. In 2009 the GDP was expected to decline by 14 percent. In 2010 the GDP is projected to grow (+ 2.7 percent) with the inflation rate reaching 10.3 percent. The positive aspect of the forecast is that the current account surplus (0.4 percent of the GDP in 2009 and 0.2 percent of the GDP in 2010) is expected to change the current account deficit due to the import volume decline (but not the export growth) [20].

In the face of the uncertainties in the world economic development, it is difficult to determine the prospects for the national economy, deeply integrated into the world economic environment. At the moment the Ukrainian economy has several scenarios to develop. The global economic turmoil has not become the crisis of renewal for Ukraine. Conversely, it has deepened the contradictions of the national economic development. In fact, it means that the crisis hasn't performed its constructive function. This worsens the economic situation in Ukraine.

In Ukraine the financial crisis is mostly characterized by weakening of the main financial system structural elements' interrelations, chronic budget deficit, financial system imbalances, exchange rates' volatility and increased indebtedness, irrational budget expenses' structure and tax rates. At the moment, the national economy also suffers from the secondary consequences of the global financial crisis: increasing value of foreign financial resources, capital outflow, weakening consumer demand in the main export markets, unfavorable expectations of the economic entities due to global crisis demonstrative effect.

The financial turmoil also led to an increase in oil prices. In the second quarter of 2007 oil price was \$100 per barrel, but at the beginning of the world financial crisis in September 2007 the prices sharply went up. The economy of Ukraine extremely depends on oil and gas prices. The upsurge in oil prices led to the increase in prices of fuel and lubricant materials, resulted in transportation costs' and food prices' increase. The upsurge in oil prices caused the world infla-

tion rate growth, resulted in import price increase. Natural gas is another key energy source of Ukraine. The Russian Federation as a leading natural gas' exporter sets the gas price on the basis of oil prices.

Both developed and developing countries suffer from destructive impact of the financial and economic crisis. The urgent necessity of developing of effective anti-crisis regulative measures taking into account the national economic peculiarities determines the feasibility of studying of the global crisis consequences.

As the scale of the impact of the global financial crisis on economic growth has become evident, authorities around the world have taken unprecedented measures to fight against the crisis. However, the regulative interference of the authorities in the financial system cannot protect the world economy from the further system crisis escalation. The majority of regulative measures are intended to solve the crisis consequences while its reasons, destructive potential, duration are often ignored.

A term "crisis" means a crucial decision, a turning point, a sudden change, an emotionally stressful event, an urgent lack, an unstable position [3, p.328]. Modern scientists define "crisis" as an unstable economic situation, followed by the asset loss risk, the high level of uncertainty, especially one involving an impending abrupt or decisive change.

In particular, O. Baranovskiy defines "crisis" as a multi-aspects economic category, which economic essence has not been defined by the economists. O. Baranovskiy examines 10 types of crisis. They are monetary, debt, banking, credit, currency, financial, budget, payment, investment and inflation crises [1, p.112]. But we consider that all the mentioned types are the parts of the financial crisis.

The analysis of the scientific works shows that the most popular meaning of the term "financial crisis" is the disruption of the financial market equilibrium, following by the instability of financial institutions, a sharp GDP decline. We maintained that the main characteristics of the crisis are the macroeconomic equilibrium disruption, the unemployment rate growth, an increase of the uninvolved production capacity part; the real wages, corporate income and demand decline; a decrease in the retail and wholesale trade volumes; loan and currency market crash; payment defaults; the loan pressure, an upsurge in loan rates; lack of money supply, high inflation rate; a decrease in investment volumes, the capital depreciation; an upsurge in shares' prices, the panic at the stocks exchange; the mass corporate bankruptcy; growing social pressure [11, p.124].

A banking crisis as a part of a financial crisis is a feature of the market economy. In other words, a banking crisis is not an abnormal event; it is an ordinary feature of the dynamics of the economic systems. The experts of the International Monetary Fund identified 124 banking crises, taken place in 1970-2007. 24 of 124 banking crises were followed by the currency and debt turmoil and called "dual crisis"; 10 of 124 banking crises were defined as "triple banking crises" [10, p.20].

A banking crisis may start in the unfavorable economic conditions and also in a "healthy" economy. But unexpected banking crises don't happen often. There exist different definitions of the term "banking crisis" and its features in the works of scientists and leading international organizations' experts. For instance, International Monetary Fund experts L. Levin and F. Valencia examine this problem from the position of the financial institutions' and corporations' ability to meet contract commitments [20].

E.J. Fridley declares that the key feature of a banking crisis is a sharp depreciation of bank assets, a decrease in deposit volumes that demand the intervention of the government, the nationalization or forced mergers etc [13, p.75].

R. Duttagupta and P. Cashin, IMF analysts, examine a banking crisis from the operational point of view and declare the necessity of the implementation of the liquidity and profitability

standards in the banking sector. A.D. Kunt and E. Detriagache suggest identifying banking crisis through analyzing the return asset ratio (ROA), deposit base indicators, governmental resolutions on the implementation of urgent measures, bankruptcy of banks [20].

E. Detriagache, R. Rajan and J. Del Arrik, IMF experts, have proposed the indicators to determine the banking crisis beginning. They are a sharp decrease in deposit volumes, stabilization measures of the government; the value of anti-crisis measures exceeds of 2% of the GDP etc [20].

The Bank of International Settlements defines a banking crisis as a situation when at least one of the following conditions holds:

- large scale bank nationalization as a result of banking sector problems, frozen deposits;
- the value of anti-crisis measures in the banking system exceeds 2% of the GDP;
- there are bank runs or new important depositors' protection measures
- distressed assets exceed 2% of the GDP [21].

The above-mentioned features of the banking crisis have become the reality of the last years. According to the estimates of K. Rogof, the sufficient value of the anti-crisis package to rescue the world economy amounts to \$1-2 trln. US Treasury Secretary H. Paulson to support the US financial system presented a \$700 bln bailout plan to the US Congress. At the end of September 2008 the financial crisis reached the banking systems of the EU. As a result European countries announced the aid package to rescue the EU economy [2, p.8-19; 5].

There exist a lot of banking crisis characteristics, proposed by the scientists of Ukraine. O. Baranovskiy has generalized the term "banking crisis", defined by the different economists: "A banking crisis is a crisis in the banking sector, based on the domino effect, when the insolvency of several banks with distressed assets causes the panic, a sharp decrease in interbank loan volumes, the payment system and financial market crash" [1, p.419].

A banking crisis can be defined as a serious banking system malfunction related to the deposit base decline, an increase in "bad debt" volumes, urgent anti-crisis measures, a decrease in liquidity of banks, bankruptcy of banks. So in this sense, while determining the essence of banking crisis, it is necessary to take into account its institutional nature (system of social and economic relations), its organizational nature (the interaction of some economic organizations) and its management-related nature (efficiency-oriented and anti-crisis expenditures' minimization nature).

From our point of view, a banking crisis is a deep imbalance of the banking system, followed by the inability of economic agents to meet their obligations and fulfill their functions, the deterioration of the financial indicators. Although there are several sources of banking crises, the main source is a banking institution. In its turn, the banking lending is a main channel of a banking crisis, because the latter is followed by an upsurge in loan rates, loan and output volumes' decline and an increase in the unemployment rate.

Banking crises have some peculiarities. They are not cyclical. Defects in the commercial and central banks' management, governmental policy play a crucial role for banking crises. A banking crisis is a part of every economic system. Banking crises have similar mechanisms, preconditions, consequences and their own peculiarities.

A banking crisis often is a part of an economic crisis and as usual the former aggravates the latter. Banking crises lead to the economic situation deterioration, resulted in the decline of the real GDP, the consumption and the output; an increase in unemployment and loan rates, banking services' prices; the credit money deficit. In its turn, it worsens the conditions for the small and medium business development. At the same time, banking crises can be all-sufficient.

Banking crises can emerge at the micro, macro and international levels. We consider that banking crises at the micro and macro level have substantial differences. Today the process of

the banking system destabilization is taking place at all 3 levels. As a result of the financial integration development banking crises are likely to emerge oftener at the international level [18, p.129-135]. The anti-crisis measures for the micro, macro and international level should be developed taking into consideration this fact.

The most evident consequences of banking crises are bankruptcy of banks and the deposit outflow, resulted in the economic growth decline and a decrease in monetization indicators. According to the estimates of the International Monetary Fund, a country loses 10% of the GDP every year due to a banking crisis [20].

The recent banking crisis has revealed the banking system disproportions and defects of the banking regulation system. The economic globalization creates the illusion of the opportunity to solve the domestic economic problems at the expense of other countries. At the beginning of 2000, overheating of the US economy required the effective anti-crisis measures of the US Federal Reserve System. But instead of taking ordinary anti-cyclical measures, the Federal Reserve System decided to devalue US dollar. At the end of 2008, Alan Greenspan recognized that mistake of the FRS strategy [20]. The excessive financial sector liquidity was directed to the speculative markets at that time. It caused the appearance of bubbles (in particular, at the mortgage market). In such conditions, the government should have taken ordinary preventive measures.

Main preconditions of the banking sector destabilization are macroeconomic indicators' deterioration, which negatively impact on the borrowers' activity; speculative markets' crash and payment defaults; depressed asset accumulation; lack of the liquidity in the banking institutions that led to the appearance of bank clients' crisis expectations; non-effective regulative measures.

The Japan banking crisis of the 90th gives the evidence that the crises can be caused by the depreciation of the banking assets or (and) an increase in distressed assets volumes. In Japan overheating of the economy and the stock market led to the corporate securities' depreciation (corporate securities compose an essential part of commercial banks in Japan). The considerable merger of the banking and industrial capital is a peculiarity of this country. The experts called that crisis "the soap bubble economy crash". The preconditions of the recent banking crisis in developed countries differ from the ones in Japan. The mortgage crisis transformed an essential part of loan portfolios into the distressed assets. For instance, in 2009 279 banks went bankrupt in the USA [22].

In emerging markets the banking crisis was also followed by the domestic currency devaluation, the drastic dollarization of domestic economies; a considerable increase in gross debt volumes and central bank reserves decline; an extreme increase in banking operations' volumes, the excessive politicization of the banking system (the Appointment of the Central Bank Head on the political basis); the essential dependence on the world financial market conjuncture (i.e. the impact of foreign capital on the domestic banking system).

The financial market globalization required the realization of the coordinated measures to overcome the crisis. In 2008 in developed countries central banks reduced refinance rates to stimulate the economy and to overcome the recession. The US Federal Reserve System, Bank of England, the European Central Bank, central banks of Canada, Switzerland and Sweden announced 0.5% cut in refinance rates. Bank of England cut the interest rates from 5% to 4.5%; the US Federal Reserve System cut the rate from 2 to 1.5%; the European Central Bank cut the rate from 4.25% to 3.75%. The People's Bank of China also cut the rate to 6.93%. In 2010 in the European Union the European Systemic Risk Board was established as a financial control body of the European Central Bank [23]. This measure was unprecedented.

The Basel Committee on banking supervision reconsidered the recommendations on capital adequacy and banking risks to reinforce the stability of banks. According to the Basel III the target is to achieve a 10.5% minimum total capital plus the capital conservation buffer. Central banks have already begun the implementation of new requirements. For example, in Switzerland the requirement for the 2 biggest banks (UBS and Credit Suisse) has been risen to 19% [2, 23].

The National Bank of Ukraine also rose this indicator to 120 bln hrn. But such a considerable rise will lead to an increase in the foreign capital inflow into the banking system of Ukraine (a rise from 120 to 500 bln hrn is being discussed now). In the short run it promotes the domestic banking system stabilization, but in the long run it will cause the additional risk of the banking system destabilization [24].

Barriers to prevent a banking crisis can be established at the micro, macro and international level. The effective banking management and the aid of the government play the crucial role for the maintenance of the banking sector stability. The banking crisis consequences depend on the anti-crisis management efficiency. In its turn, the opportunities of the anti-crisis management depend on the qualification of managers, the depth of a crisis, the market position of a bank, the economic situation and the impact of political and legal factors.

In the work of every system there are deviations caused by external and internal factors. The system is considered to be stable when it is able to remove deviations independently. Modern banking systems have not demonstrated the ability to remove deviations independently. The regulative impact of central banks was not effective enough so the governments had to implement the regulative measures [2, 19].

Developing the banking regulative measures the governments must consider main challenges of the modern world financial crisis. Regulative measures should not be limited to troubled banks' refinancing. The stable and sustainable economic growth can be the only reason to weaken the banking supervision requirements. In case of the dynamic growth of banking assets, the banking supervision requirements must become tougher.

The deposit insurance system should not be too liberal. In case of a bank bankruptcy depositors must lose some part of their deposits, so the depositors will carefully choose a banking institution to make a deposit. Such measures allow accumulating banking resources in the most reliable banks. The confidence in the banking system should have more fundamental basis than the deposit insurance system. The information openness of banks and banking systems is the key factor of depositors' confidence, which is the guarantee of success in the banking sector. It is necessary to reduce the corporate securities' share in the banks' investment portfolios. They are more risky and give the opportunity to hide some banking problems.

In the conditions of the financial market globalization the banking capital consolidation process will lead to the stability of the domestic banking system. But the governments should develop the foreign capital inflow control measures.

The world economy internationalization process cannot go through Ukraine, especially taking into account the openness of its domestic economy. Taking into consideration all the advantages and drawbacks, it is necessary to develop the effective strategy of the foreign banking capital allocation. On the one hand, the foreign investment inflow meets the needs of the domestic financial system development. It leads to the resource base extension, which is favorable for the social and economic development.

But at the same time there are serious financial and economic risks of a dynamic increase of the foreign capital share in the total banking capital. These risks are connected with the loss of the monetary sovereignty, the potential destabilization, fluctuations in bank liquidity, speculative changes in the money demand and supply, the possible financial resources' outflow. In this

sense, it is highly recommended taking into account foreign experience while developing the national strategy of the foreign capital allocation. The analysis of the banking integration experience of Western, Central and Eastern European countries gives the opportunity to substantiate the prospects of the integration of Ukraine into the world financial environment.

The analysis of the foreign banking capital impact on the host country shows its potential positive and negative aspects. The possible advantages of the foreign capital inflow are connected with the domestic financial sector development stage, its openness, the financial regulation system development level. The OECD countries' experience shows that foreign-owned banks intensify the competition at the domestic market (first of all, at the wholesale loan market). New financial instruments and banking products lead to the improvement of the market and existing services' efficiency. For instance, in the USA the competition of the foreign-owned banks caused a decrease in the interest margin, the appearance of new financial instruments (bank syndicated loans, fluctuating rate loans, forfeiting operations etc) [17, p.119].

This approach is extremely important because nowadays among three key goals of the monetary policy (efficiency, stability and depositors' interests' protection) the crucial role plays the maintenance of the high efficiency of the banking system on the basis of its modernization and the competition intensification. In such conditions the foreign capital allocation seems to be the essential elements of the state competitive policy.

In this light, it is important to improve the banking system efficiency, to intensify the banking lending and investment in the industrial and innovative sectors development. In its turn, these measures will allow to reinforce the position of Ukraine in the world economy internationalization process.

The global financial and economic crisis caused a sharp decrease in investment volumes, payment crisis, banking standards' violation in emerging markets. At the same time it revealed the drawbacks of the tax legislation, the payment system, the legislation instability. All these facts demonstrate the necessity of the banking system improvement. Recently some banks have not been able to independently fulfill their functions (lending, settlements, currency operations etc). In its turn, it impacts on the confidence in the banking system. One of the methods to restore the confidence is the capital adequacy that guarantees the safety of deposits.

Nowadays in emerging markets (in particular, in Ukraine) the banking system capitalization is an urgent measure. The banking regulation system improvement is a necessary measure to become an equal member of the European Community. But the regulation system improvement should be realized in accordance with the international standards, recently amended by the Basel Committee on banking supervision (Basel II). Moreover, to reinforce the depositors' confidence in the domestic banking system it is worth creating the conditions for the long-term investments. There are two methods to affect the domestic financial stability: the traditional bank lending channel and the direct banking capital channel.

Basel II gives the opportunity to improve the financial system stability in 6 directions: the risk management improvement, the prompt reaction to dynamic changes in the financial system, deepening of the international cooperation of the national banking supervision bodies, the financial stability test, the risk-oriented supervision and the transparency. In every country there was the independent system of the capital requirement regulation before the international standards were adopted by the Basel Committee on banking supervision. In some countries their own capital adequacy regulation system still dominates.

Merger or acquisition deal is the main mechanism of the capitalization abroad. This is an efficient method of the creation of the highly capitalized banking system in Ukraine. The total value of the M&A deals has reached \$4 trln. In Ukraine the value of the M&A deals accounted to more than \$5 bln (110 deals) [24].

In Ukraine the important conditions of the banking system capitalization are the economic environment improvement, the stability of money turnover, the consumer prices and money supply. To put into practice these priorities it is necessary to legalize shadow capital, to implement income tax benefits and long-term models of the annuity insurance, to improve the investment environment, to provide the conditions for the risk minimization and profit maximization in the banking system, to stimulate the long-term lending and to develop the insurance market.

The financial and economic crisis in Ukraine impacted on the monetary relations structure and led to the imbalance between the industrial and banking sectors. At the same time the prospects of the further economic development depend on the monetary and banking system balance, the financial market stability, the banking system ability to provide loan resources for the economy. The analysis of the aggregated impact of the monetary policy (conducted to provide the economic stability and positive structural changes) leads to the further structural balance deterioration. In fact, the main goal of the current financial stabilization policy is to reduce the inflation rate. But the term “financial stabilization” refers to more indicators and has more complicated structure. The key financial stabilization indicators are the inflation rate, the financial and banking system situation, the balanced budget, the domestic currency stability, the public debt level, money supply indicators, the payment system situation, the tax system efficiency etc. The inflation ratio decline, following the simultaneous deterioration of other stability indicators cannot be treated as the financial stability improvement.

In case of financial problems banking institutions take all the necessary measures of the financial stabilization. In such conditions banks have to restructure assets and liabilities to get rid of non-efficient operations, to limit non-operational expenditures to improve risk and liquidity management systems and to focus on the staff professional qualification. These measures are effective, but they cannot change negative trends, dominated in the banking system of Ukraine as a whole. Of late the trend of the banks’ financial situation deterioration has been appeared. This trend is connected with the payment crisis, changes in the monetary system and banks’ lending policy. According to the estimates of experts and the officials of the National Bank of Ukraine many banks are on the verge of bankruptcy in Ukraine.

In this light, the key problem is that it is necessary for the National Bank of Ukraine not only to permanently regulate the banking sector and to develop the program of the above-mentioned measures, but also to create the institutional provision (first of all, banking institutions). When the anti-inflation restrictive measures lead to the banking system stability deterioration, the National Bank of Ukraine should conduct the balanced monetary policy and take responsibility not only for the domestic currency revaluation, but also for the creation of the banking system stabilization conditions.

In this light, it’s worth mentioning that the financial crisis is the most favorable period to put into practice reforms as the economic entities realize the necessity of changes in the conditions of the turmoil. The crisis is not only the destruction. It contains the constructive potential, accelerates the economic development. Although, while treating the crisis as the positive phenomenon it is necessary to take into account the social aspect. The macroeconomic indicators increase due to shocks at the micro level, losses of some economic entities can’t be positive.

Majority of the scientists who stand on the favorable crisis impact on the national economic development, in general, ignore the fact that economic problems and difficulties firstly affect the most vulnerable low-income stratum of the society. The regulative anti-crisis measures are tighter regulation of the budget expenses and social project financing in particular, decrease budget deficit financing through borrowings, tax rates’ optimization, small business support, reinforcement of the economic entities’ legal responsibility for the tax legislation violation.

Conclusions. Nowadays the financial and banking system of Ukraine and the economic system as a whole, is in a crisis, resulted in the crucial budget deficit, an increase in the inflation rate, corporate payment defaults, a sharp domestic currency devaluation, the domestic and external debt. But the crisis has reincarnated market forces, meant to play a major role in the development of the financial and banking sector. The activity of market forces should be supplemented with new credible regulatory acts, and the financial liberalization policy followed by the effective monetary policy and the efficient management of systemic risks.

Today Ukraine requires the comprehensive program of the financial and banking system stabilization, closely connected with restructuring of the domestic economy and focused on the single nationwide market creation. To develop such a program it is necessary to coordinate the activity of the fiscal and budgetary and monetary institutions. However, to ensure the reality of funding, budgetary allocations should be indexed taking into account the inflation rate. The central budget, taking into consideration the crucial budget deficit, should finance the costs of national importance (social programs, state machine and military costs, public order etc.) and interregional programs.

These measures will be possible only if the general recovery of the banking and financial system are fulfilled, the real economy becomes the priority. But, unfortunately, there is a continuing capital outflow from the industrial sector and a decrease in investment volumes. This is reflected in the dynamics of real cash flows. Despite some formal re-monetization of the economy, the capital outflow from the industrial sector to the speculative market is going on.

The analysis shows that the situation in the financial and social sectors cannot be improved only by the budget limitations. To solve this problem it is necessary to allocate non-tax revenues, in particular through the domestic borrowing stimulation mechanism. One of the first priorities is the development of the domestic state securities' market. The tax reduction will boost incomes and savings of households and business entities that can be attracted to the budget through the financial market, and thus compensate the losses of tax revenue. The reduction and restructuring of budgetary expenditures are also highly recommended.

Thus, the financial stabilization and therefore the increase in the activity of the industrial sector largely depend on the degree of the banking system stability and require the development and the implementation of the complex program of the gradual stabilization of the monetary sector. In this sense, it is important to pay attention to the prevention of the bankruptcy of commercial banks through the reorganization and merger mechanisms. It is necessary to create a modern system of refinancing of commercial banks, the system of financial aid to the banks and restructuring of this sector. A special fund of the financial recovery of the banking institutions should be established at the expense of banks' reserve funds. It is also necessary to solve the problem of the optimal level of reserve requirements.

The priority of the economic strategy should be the elimination of discrepancies between trends in various areas of the monetary relations, and also disproportions between sectors of the Ukrainian economy. This is the contradiction between the needs of the industrial and financial sectors, the stability of the banking system and the conduction of the restrictive monetary policy.

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