

УДК 336.71.078.3

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NATIONAL BANKING SYSTEM: FROM INTEGRATING DEREGULATION TO GLOBAL UNIVERSAL REGULATION

The term “globalization” has come into common usage since the 1980s, reflecting technological advances that have made it easier and quicker to complete international transactions—both trade and financial flows. Globalization is defined by IMF as a “historical process, the result of human innovation and technological progress, which refers to increasing integration of economies around the world, particularly through trade and financial flows.” (IMF, 2000)

“The globalization system is not static, but a dynamic ongoing process: globalization involves integration of markets, nation-states and technologies to a degree never witnessed before—in a way that is enabling individuals, corporations and nation-states to reach around the world farther, faster, deeper and cheaper than ever before, and in a way that is also producing a powerful backlash from those brutalized or left behind by this new system. (Friedman, 1999) As a result, the global economy has become increasingly integrated, international financial flows have grown and more people are moving.

The most striking aspect of globalization has been the integration of financial markets made possible by modern electronic communication.

During last two decades, increased globalization of financial markets (that is considered as a situation where each country’s financial market becomes increasingly integrated) and the environment in which the banks and regulatory institutions (e.g. central banks) operate has changed dramatically.

As the matter of fact, well-developed national markets are able to integrate and benefit from globalization. In the case of Ukraine - financial globalization is not considered to be an issue to watch closely. First target seems to be the national financial market development, however, under today's circumstances, it is impossible to build the isolated system, especially when the integration process has taken places in not that much obvious way.

Financial market integration has been accelerated by the certain factors that have occurred during the past 20 years, which allow to explain the low level of financial integration processes in Ukraine. The factors are as following:

- the end of the need for foreign exchange controls has resulted in a free flow of capital between markets of industrially developed countries;
- deregulation has removed barriers that impeded access to markets in different parts of the world, by both issuers and financial service providers;
- massive improvements in telecommunications capability has made it possible for information available in one part of the world (such as bond prices) to be simultaneously available in many other places;

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- advances in financial technology (and the infrastructure to support it), such as swaps and other derivatives, have made it possible to take advantage of many new financing opportunities.

There is a widespread consensus among policy makers and regulators that more widely accepted rules and standards need to be put in place to promote greater market efficiency and facilitate the integration of global financial markets.

The development and implementation of codes and standards has three principal objectives:

- First, to serve as a benchmark for economic performance. This will assist policy makers and regulators to identify instances of poor performance and take corrective action.

- Second, to provide for the dissemination of relevant, accurate and timely information by governments, financial institutions, and the private sector. High-quality standards, especially in areas such as accounting, assist in the accurate interpretation of information. In the absence of standards, information being disclosed may mislead the market resulting in less than optimal resource allocation and uncertainty.

- Third, to facilitate the comparability of data - allowing informed comparisons of the financial and economic performance of firms and economies.

Developing and implementing standards and codes of good practice that meet these three objectives will, together with greater transparency, play an important role in building stronger, more resilient and more efficient financial systems at the national level - systems in which investors and creditors are better able to make knowledgeable decisions, and supervisors are able to judge the soundness of commitments by their financial institutions.

Of particular interest are codes and standards being developed to strengthen risk management and prudential regulation. Financial market participants need to strengthen their practices of managing credit and market risk - and supervisors need to increase their oversight in this area.

One important step is the updating of the 2004 Basel Capital Accord risk weighted capital system so that to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy. The Basel Committee on Banking Supervision (BCBS) has undertaken a review of the Capital Accord to strengthen global capital and liquidity regulations with the goal of promoting a more resilient banking sector and in December 2009 released a consultative paper on a new capital adequacy framework.

Ukrainian banking system at the moment is not sufficiently integrated to the global one. Ukraine is currently in the process of achieving the level of the global banking development.

It is possible for Ukraine to enter the existing system only after acquiring systemic features. They lie into:

- improvement of the target evaluation and operating of the banking system as a whole mechanism to further its development;

- perfection of conditions to realize principle of self-regulation of the banking system of Ukraine (e.g. solution of internal problems of banking independently);

- optimization of risk-management system for perfection of banking system stability, identification of systemic threats, objective assessment of the system's ability to counter threats;

- updating of the supervisory function of the system: providing quality connection between external environment and internal functioning of the banking system of Ukraine.

Involvement in the process of globalization sets up new challenges for Ukraine, among which we can already anticipate the problem of harmonization of legislation, adapting to the international standards and requirements.

The global acceptance, and credible and rigorous implementation, of appropriate standards and codes will in-turn strengthen the international financial system – helping to prevent future crises.

Even though deregulation of financial markets could remove barriers and lead to benefits, the situation we face today demand the opposite - if we continue to globalize, we should consider the importance of the common rules and frameworks to be set up by international regulators.

Ukraine is to find its place in this process in order to be a strong participant of the European, as well as global, financial markets.

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