УСТОЙЧИВОЕ РАЗВИТИЕ БАНКОВСКОЙ СИСТЕМЫ В КОНТЕКСТЕ НАЦИОНАЛЬНОЙ МОДЕРНИЗАЦИИ

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THE PROSPECTS OF THE IMPLEMENTATION OF MACROPRUDENTIAL POLICY

Билык Ольга Игоревна, к.э.н., доцент кафедры банковского дела, olga_bilyk@i.ua
Дребот Наталия Петровна, к.э.н., доцент кафедры банковского дела, drebot72@gmail.com
Львовский институт банковского дела
Университета банковского дела НБУ (г. Киев)

This article seeks to assess the need for a macroprudential policy pillar and the degree to which progress has been made in instituting one, viewed in the light of lessons learnt in the field of financial stability over the past decade. During this period there have been numerous crises, coinciding with considerable research and developments in policy and culminating in the lessons of the current crisis. A major impetus to these have been a growing realisation of the costs of crises, which can exceed 20% of GDP, and the link of such crises to shared exposure to macroeconomic risks and not simply the failure of a single large institution. A key policy development has been Macroprudential Surveillance, although as highlighted, there remain some unanswered questions as to its use in practice in full–blown Macroprudential Regulation.

Keywords: financial stability, crises, macroeconomic risks, macroprudential regulation, macroprudential policy.

The recent financial crisis has prompted a close focus on the causes of financial instability as well as the issue of whether it can be prevented. There is a growing realisation that the Sub–Prime crisis, although having some important unique features, also had a number of generic aspects in common with earlier financial crises, of which a large number have been seen in recent decades. Accordingly, the crisis has prompted a debate about macroprudential policy, which focuses on the financial system as a whole, treating aggregate risk as endogenous with regard to collective behaviour of institutions. Our survey shows that a great deal of progress has been made in 'macroprudential surveillance' and related research on causes and predictors of crises. Much less progress has been made in 'macroprudential regulation', the design and implementation of policies to prevent or mitigate threatened crises.

Governments have long sought to regulate financial institutions to ensure that they are safe, sound, and able to honor their obligations – especially institutions like commercial banks that collect funds from the general public. But the global financial crisis demonstrated that traditional regulation, often called microprudential, is insufficient to guarantee the health of the financial system as a whole.

Traditional regulation tends to be light on institutions like investment banks that operate primarily in wholesale markets, where the potential for losses faced by retail depositors is less. Moreover, microprudential policy conceives of the stability of the financial system as the sum of individual sound institutions. It does not take into account that what constitutes prudent behavior from the point of view of one institution may create broad problems when all institutions engage in similar behavior – whether by selling questionable assets, tightening credit standards, or holding onto cash. Microprudential regulation also does not typically recognize that institutions can be a threat both to other financial institutions and to markets, where many large financial firms raise and place funds [2].

Because of increasing recognition that traditional regulation allowed financial vulnerabilities to grow unchecked, contributing to the global financial crisis, authorities in many countries are exploring a more systemic approach to financial regulation. This holistic approach is called macroprudential policy.

Macroprudential policy does not seek to replace traditional regulation of financial institutions, such as commercial banks, which are essential to a healthy system. Instead, it adds to and complements microprudential policy. It can often deploy traditional regulatory tools, and relies on traditional regulators for implementation and enforcement. Macroprudential policy – a set of preventive measures aimed to minimize the risk of a systemic financial crisis, i.e. the risk of a situation in which a significant part of financial market is defined as insolvent or illiquid, causing market participants can not continue to operate without the support of the monetary authorities and supervision [3].

Unlike macro–prudential supervision, prudential supervision focused on individual banks and their risk , paying minimal attention to the activities of the financial sector as a whole [3].

Macroprudential policies are designed to identify and mitigate risks to systemic stability, in turn reducing the cost to the economy from a disruption in financial services that underpin the workings of financial markets – such as the provision of credit, but also of insurance and payment and settlement services.

An example of such a disruption is a credit crunch, in which losses suffered by banks and other lenders cause a curtailment of credit to households and firms that in turn depresses overall economic activity [2].

Such disruptions can arise either from the overall, or aggregate, weakness of the financial sector or from the failure of so–called systemic individual institutions—which are large and have financial relationships with many other institutions.

The failure of an individual institution can create systemic risk when it impairs the ability of other institutions to continue to provide financial services to the economy. Usually only a large institution that is heavily connected to many other institutions can cause such spillovers that its failure threatens systemic stability.

These spillovers can occur through one or more of four channels of contagion [4]:

- direct exposure of other financial institutions to the stricken institution;
- fire sales of assets by the stricken institution that cause the value of all similar assets to decline, forcing other institutions to take losses on the assets they hold;
- reliance of other financial institutions on the continued provision of financial services, such as credit, insurance, and payment services, by the stricken institution;
- increases in funding costs and runs on other institutions in the wake of the failure of the systemic institution.

For macroprudential policy to be able to reduce the expected cost both of aggregate weakness and of disruption through failure of individual systemic institutions it must bring within its purview two sets of firms—systemic institutions and all leveraged credit providers (those that lend borrowed funds) [3].

Systemic institutions include not only large banks, but also those that provide critical payment and insurance services to other financial institutions.

All leveraged providers of credit, regardless of size, are included in the purview of macroprudential policy because it is their collective weakness that can affect the provision of credit to the economy as a whole. Although banks are almost always the most important leveraged providers of credit, in some jurisdictions important classes of nonbank lenders must also be within the scope of macroprudential policy. Otherwise there is a risk that the provision of credit will migrate from banks to less–constrained nonbanks (Table).

Thus, macroprudential policy is different from the micro–prudential supervision in the analysis of the stability of the financial market, which takes place at the aggregate level rather than at the level of individual financial institutions; taken into account all the financial markets, not just banks; analyzed the relationship between systemoutovryuyuchymy financial institutions, medium–sized and small to avoid the situation the effect of "dominoes".

Macroprudential policy must deploy a range of tools to address aggregate weakness and individual failures. Because a single tool is unlikely to be sufficient to address the various sources of systemic risk, the macroprudential authority must be able to tailor specific macroprudential instruments to the particular vulnerabilities identified by its analysis.

Table – Differences between microprudentia and macroprudential regulation [1]

Characteristic	Microprudential regulation	Macroprudential regulation
Final target	Reducing the costs of financial instability	Protect the interests of depositors and creditors of banks
Intermediate target	Maintaining financial stability in general	Preventing problems in certain financial institutions
Risk model in the financial sector	External risks	Internal risks
Prospects estimation	A probabilistic approach based on risk assessment, focus on scenario analysis	The approach is based on an analysis of the formal reporting, emphasis on internal controls and audits
Determination of prudential norms	The approach of "top down": tracking system of financial market shocks	The approach of "top down": tracking individual market participants
Information disclosure	Wide distribution of evaluation results including indicators of financial stability, macroprudential indicators, early warning signal models	Standardized reports and confidential information

Depending on the specific objectives of macroprudential regulation chosen set of parameters. The European Central Bank identifies three categories , namely [4]:

1) the stability of the banking system indicators (debt dynamics, competitive conditions, liquidity, risk concentration, asset quality, profitability, availability of capital buffers, the assessment of the market) ;

2) macroeconomic factors affecting the banking system (level of income, leverage, debt rates , asset prices , monetary policy and external position of the country and / or the EU);

3) factors sensitivity to shocks in other sectors, countries, regions.

Though the level of harmonization of standards within the EU is high, the ability to compare the indicators among union members is complicated by differences in accounting standards and redundancy [3].

Since 2011, the European Union is building a European system of financial supervision, which includes regulators of individual segments of the financial sector (Fig. 1)

Fig. 1 – Scheme of European financial supervision system

The last of the agencies was created European Systemic Risk Board, which has the following functions: identification, assessment and reduction of vulnerability arising from the interdependence of elements of the financial market, and macroeconomic and structural change. It is believed that the main advantage of the new regulator will be able to quickly adapt and flexibility of response.

The legal basis for macro–prudential regulation in the United States at present is the Dodd– Frank Act , signed July 21, 2010 According to this legislation was created macroprudential authority – the Board of supervision of financial stability, which has broad powers to determine and monitor excessive risk in the financial system U.S. may be caused by the deterioration of the financial condition or bankruptcy of large banks, bank holding companies and / or non–bank institutions , or external factors, and response to threats to the financial stability of the United States [2].

Board of supervision of financial stability deals with identifying systemically important institutions to develop them more stringent standards, enhanced monitoring, restructuring and eliminating those that carry risks for the entire system [3].

At the same time strengthening the macroprudential concept is in other financial sector regulatory bodies.

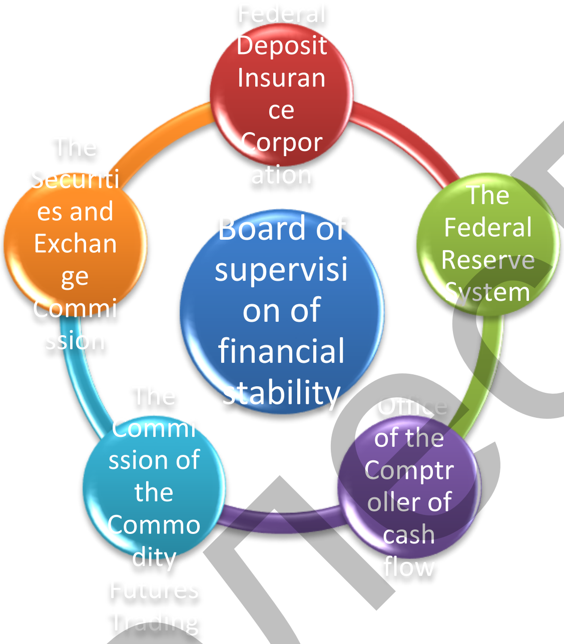

Fig. 2 – Model of macroprudential regulation in the U.S.

China is building a system of macro–prudential regulation of the banking system, including working to develop a mechanism for collecting and analyzing macro–prudential indicators, which runs parallel with the transition to international accounting and auditing standards and improve the classification of financial institutions. The structure of financial regulation remains unchanged from 2004 (Fig. 3.), But expanding range of issues in connection with a focus on macro and systemic risk.

Currently for macroprudential analysis regulators mikroprudentsiyni China uses the following indicators: overall performance of institutions that reflect the dynamics of assets, loans and deposits, safety indicators (capital adequacy, asset quality, concentration of loan portfolio), liquidity and profitability.

Theme of macroprudential approach is also actual for Ukraine. Since the national banking system continues to develop it is particularly exposed to market risk and liquidity risk. Assessment of systemic risk and macroprudential regulation is not implemented in Ukraine at the appropriate level [3].

Fig. 3 – The system of macro–prudential regulation in China

We believe that a partial analogue of such activities are calculation of macroeconomic stress tests and some metadata financial soundness indicators, which are summarized by the National Bank in the framework of the assessment of the stability of the financial sector under the authority of the IMF and the World Bank. In my view, the history of banking regulation and supervision indicates a low probability of a single body that would be responsible for the stability of the banking system. A more important problem is to establish promptly relationship with macroprudential issues between the National Bank of Ukraine, State Commission for Regulation of Financial Services Markets of Ukraine and the National Comission of the Securities and Exchange Commission [1, p.7].

To our opinion using world experience modeling system to ensure financial stability of the banking system in Ukraine, responsible for macro–prudential regulation should be a specialized department of the NBU, which would consist of experts from various fields to explore all the major manifestations of systemic risk. One of the priorities is to develop a set of indicators that allow to prevent violations of resistance at the level of individual banks , and at the system as a whole , paying special attention systemically important institutions (Fig. 4).

Fig. 4 – The system of macro–prudential regulation in Ukraine

The independent central bank should play an important role in all arrangements. Not only do central banks have expertise in risk assessment, but as lenders of last resort to institutions facing liquidity problems, central banks are motivated to take timely action to reduce the buildup of risks. Moreover, a strong role for the central bank allows coordination with monetary policy, which sets the overall conditions that affect the demand for and supply of credit. Participation by the government is useful to ensure the support of tax policy and to facilitate legislative changes that may be needed to enable the authorities to mitigate systemic risk, such as the creation of regulatory authority over nonbank lenders and other systemic institutions. But because of the political nature of government, a strong role can pose risks because governments have incentives to oppose taking macroprudential measures in good times, when they are often most needed [1, p.8].

But even the best macroprudential policies cannot prevent all financial crises. As a result, there is a need for a strong and flexible lender of last resort—typically a central bank—to ease temporary shortages in liquidity and for credible policies to resolve or close failing financial institutions. Moreover, macroprudential policy does not operate in a vacuum. Sound monetary, taxing, and spending policies are essential to creating a stable environment conducive to a healthy financial system.

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