

Секция. Банковское дело

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CHANGE OF BANKS' STRATEGIC CREDIT GUIDELINES UNDER THE IMPACT OF GLOBAL FINANCIAL AND ECONOMIC CRISIS

Today the world economy has been going through a difficult recovery after the largest economic crisis since the Great Depression. The financial and economic crisis of 2008-2009 has caused great harm to the financial markets and the recession process launched worldwide. For the first time since World War II these events have caused a decrease in global GDP for 2.1%. This global crisis occurred on the background of many local and mesolocal crises, and in many ways it became their result and logical extension. It should be noted that this crisis resulted in heavy losses in banking sector.

The issues of researching the nature of bank and financial crises were often considered in the works of famous foreign scientists, including S. Claessens, A. Coase, S. Merovchi, A. Faiola and others.

This topic is also quite popular and thoroughly investigated among domestic researchers, especially in the works of A. Anikin, O.I. Baranovsky, A.P. Buriak, J.A. Zhalilo, N.I. Reverchuk, A.S. Popova and others. The vast majority of such researches are dedicated to crisis identification problems in the banking or the financial sector.

However, the general character of researches does not allow to identify patterns of changing banks' strategic priorities in the credit market at various stages of the financial crisis, so it requires our special scientific research.

With this in mind, the aim of this article is researching the changes in banks' strategic priorities on the credit market before, during and after the financial and economic crisis.

Nowadays the term "bank crisis" is understood as a lot of phenomena that reflect negative trends and results of the bank system development in the country, for all this all approaches having a lot of common features in the main, differ quite significantly in the secondary ones. In Ukraine, the investigation of financial and bank crises has begun relatively recently, since only 24 years ago there was created Ukrainian financial and bank system and in the times of the Soviet Union such researches were not conducted because planned economies have nothing in common with the term "crisis". In the works of foreign scientists more attention is paid to studying the issues of crises. Depending on the aim of our scientific research the essence of «financial crisis» can be interpreted as the destruction of economic and financial relations between the economic subsystems or as a logical transformation form of the existing regulation system of financial flows taking place within the economic cycle. [1]

While financial crises may have different forms and types, in terms of classification, we can identify two most common types. Mainly, the first group includes: currency crises and crises of « a sudden stop». The second group includes debt and bank crises. It should be noted, that a specific definition of "financial crisis" is highly dependent on the theories about explanation of crises. In foreign scientific literature there were developed specific approaches to the determination of many types of crises. For example, the currency crisis involves a speculative attack on the currency, which leads to devaluation, forcing the government to spend a large share of international reserves, or sharply raise interest rates or impose capital flows controls to protect its own currency. The crisis of "sudden stops" (or capital account crisis or the balance of payments crisis) can be defined as a large (and often unexpected) reduction of the inflow of international capital or a sharp outflow of capital from the country, which

often occur in conjunction with a sharp increase in credit spreads in the country. Because these indicators can be measured, they are measured by quantitative methods.

Other crises are associated with unfavorable dynamics of public or corporate debt or shocks of bank systems. External debt crisis occurs when a country cannot (or will not) serve its own foreign debt. This crisis may take the form of public or private debt crisis (often mutual). Internal public debt crisis occurs when a country does not meet its internal financial obligations on time or reduces the purchasing power of its currency, or uses other forms of financial repression. Under the conditions of the bank system crisis actual or potential bank losses could induce banks to suspend the convertibility of their obligations or to force the government to intervene for preventing this by supporting liquidity and capitalization on a large scale. Indicators of these crises are not so easy to quantify, because they are generally valued using qualitative methods. Depending on the selected classifications we can identify other types and kinds of crises, however, one can't deny the fact that they are often interrelated and can be a cause of each other. For example, quite a great number of bank crises are closely related to the crises of "sudden stops" and currency crises. Fig. 1 shows a number of developed countries, which were in various types of crises over the past 40 years.

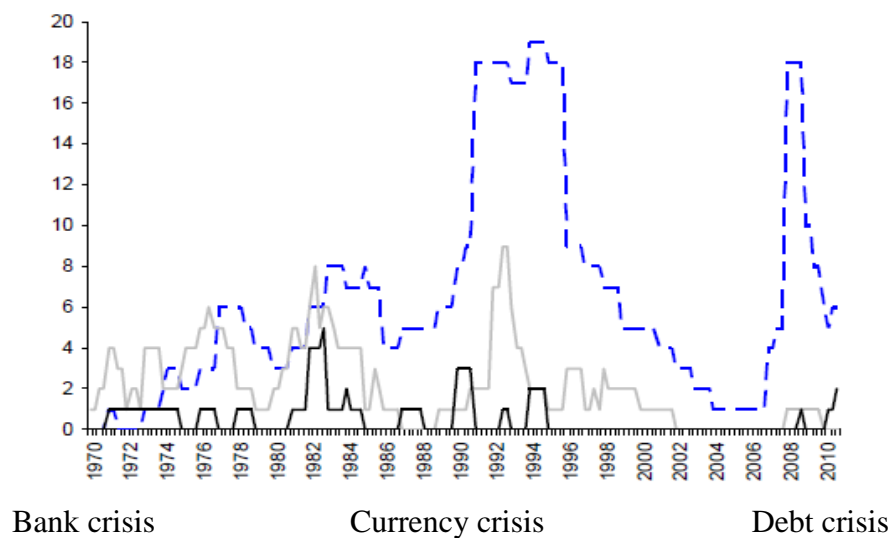


Figure 1. Number of developed countries that were in crises [2]

Figure 1 illustrates that the biggest bank crises were crises in 1990-1996s and in 2008-2009s; currency crises - in 1982 and in 1992-1993s.; debt crises - in 1982 (It should be noted, that currency crises have always been preceded by another types of crises, that's why we can put forward two hypotheses:

1) Exactly the currency crises caused the development of other types of crises;

2) Currency stability is the most sensitive to the effects of negative externalities, and that is why the exchange rate reflects the beginning of the crisis in the country economy. It's interesting to note the fact, that if in 1976 and 1982 currency and bank crisis was observed in the same number of countries, since 1992, developed countries have managed to stabilize exchange rates, as a result, already in 2008 against a background of a deep banking crisis in the world, there was no global currency crisis. Fig. 2 shows the dynamics of the exchange rate of US dollar against major world currencies and the Ukrainian hryvnia.

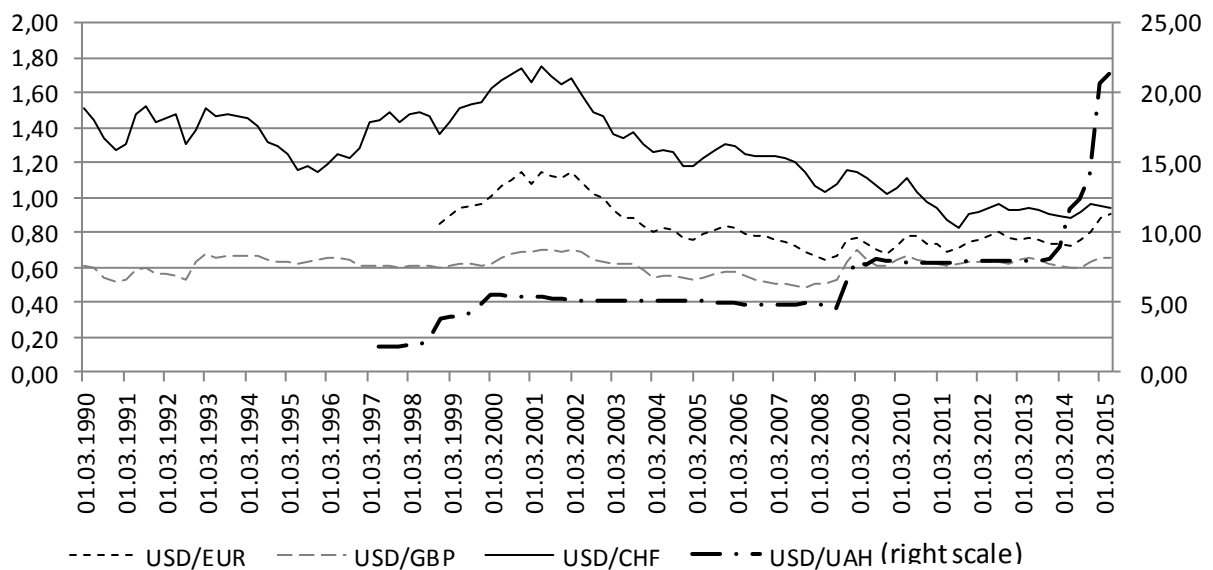


Figure 2. Changing of the USD against the leading world currencies and Ukrainian hryvnia from 1990 to 2015 (average rate period) [3]

If US dollar against the euro and pound sterling was almost unchanged in price (variation coefficient of 16.36% and 8.65%, growth rate of 5.96% and 8.11%, respectively), then regarding US dollar against the Ukrainian hryvnia we observe the fall of the hryvnia rate by to 10.58 times, while the total volatility rate reached 52.29%.

Let us analyze the pricing policy of banks in the credit market in the European Union before, during and at the end of the last financial crisis. Fig. 3 shows that, in the pre-crisis period in the EU there was an increase in interest rates on mortgage loans and loans entities (from 2005 to October 2008 corresponding rates increased almost by 1.5 times - from 3.7% to 5.9%). Consumer lending before the crisis actually has not changed in price (interest rates fluctuated within 8-9%). The peak of interest rate hike came at the end of 2008 (September-October), and then began a rapid decrease that continues to this day. Thus, the post-crisis pricing policy of banks in the credit market of the European Union was aimed at stimulating production by increasing lending and increase of its accessibility.

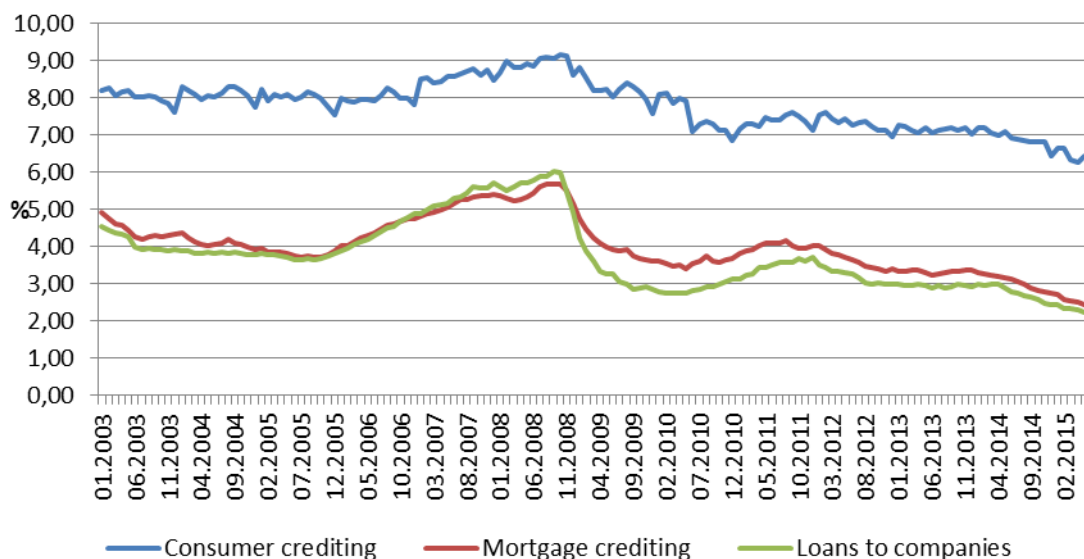


Figure 3. The dynamics of interest rates on certain types of loans in the European Union [4]

As for the areas of lending in the post-crisis period, it should be noted that there are no common trends for the European Union, in some countries there is increasing consumer lending to stimulate consumption and as a result - production, in other countries there is increasing lending to non-financial corporations, in some countries, crisis in general does not have an impact on the sectorial and industrial structure of the loan portfolio of banks [5]. As for Ukraine, the significant changes occurred in the strategic priorities of domestic banks as a result of getting over the financial and economic crisis. Interest rates on all types of loans increased significantly, which was caused by rising defaults on loans by the devaluation of the currency. This forced banks to pawn structure in the prices of most credit risk premium. Regarding the structure of Ukrainian bank credit portfolio in sectors and industries of the national economy, over the past 10 years, there wasn't observed a significant change, with the exception of the minor variations within 2-3% due to environmental changes and they are temporary.

Conclusions. Thus, summarizing the above-mentioned, we can draw the following conclusions. Today the topic of identifying economic crises and their phases are very popular in the scientific literature that is most likely caused by the recent recovery from one of the greatest world financial crisis since the days of the "Great Depression", some countries are still experiencing the effects of the crisis, in some countries we can observe their continuation in the form of other types of crises. The most common types of economic crises that occur in developed countries are currency, bank, debt and balance of payments crisis, or as it is often called in foreign scientific literature - the crisis of "a sudden stop". Other kinds of economic crises can be a combination of crises listed above and their derivatives. Analysis of the crises in the developed countries of the world for the past 45 years shows that primarily currency crisis develops, and then it is followed by the debt and bank one. On the other hand, the development of effective monetary policy has led to the stabilization of currency markets, so that

developed countries had virtually no currency crises over the past 20 years. But for developing countries this statement is not fair, they remain dependent on currency stability, it is confirmed by current trends in the economic development of Ukraine, in which currency destabilization resulted in bank and debt crisis. With regard to the strategic priorities of banks in the credit market during different stages of the economic cycle, it should be noted that the European Union is characterized by raising interest rates on loans in pre-crisis period and during the crisis and the rapid decline in the cost of credits to reach the peak of the financial crisis, in contrast to Europe in Ukraine interest rates increasing is more typical for crisis and post-crisis period, which in our opinion slows getting over a crisis, and, therefore, government regulation of interest rates in the credit market of Ukraine is an extremely important issue today. It should also be noted that the financial and economic crisis has not resulted in a change of sector and sectoral structure of banks' credit portfolio in Ukraine.

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