D. Tsyhanyuk
Candidate of Economic Sciences,
Associate Professor at the Department of Banking,
Ukrainian Academy of Banking of the National Bank of Ukraine

MECHANISM OF ENSURING STABILITY OF BANKING SYSTEM IN A HIGH VOLATILITY OF TRANSBORDER CAPITAL FLOWS

The beginning of the XXI century is similar in many ways to the first decade of the last century. The world is experiencing the second wave of globalization, which brought a large number of significantly increased levels of productivity and income. However, the first wave of globalization was interrupted by the First World War, following rehabilitation in 1920s and muffled after the Great Depression of 1930s. It took almost half a century to recover those processes of globalization, which gave hope to equalize incomes and to reduce poverty around the world and achieve common prosperity. Nowadays, globalization has a very different face than 100 years ago. Firstly, globalization has become more rapid and volatile, which is due to the rapid development of technology, lack of need for physical movement of capital and property and investments. Secondly, today, in the world, there are many powerful international financial institutions and organizations (IMF, World Bank Group, the European System of Central Banks), which assumed leadership responsibilities for regulation and globalization.

Existing mechanism of stabilization of the banking system is not able to counter the threats arising from globalization – namely, increased mobility of capital. Neither reserve requirements nor interest rate policy are aimed at preventive action, they are oriented in Ukraine just on reduction of negative consequences. Therefore, in our opinion, central bank should primarily focus on the formation of a clear link between long-term interest policy and market rates, and market rates should depend on discount rate but not vice versa. In order to prevent financial famine in the Ukrainian banking system, the state must also solve the problem of an efficient domestic money market, primarily by stabilizing the exchange rate to curb inflation and reduce foreign currency dependence of the domestic economy.