

UDC 336.7

**FINANCIAL SOUNDNESS OF THE BANKING SECTOR AS THE BASIS
OF ITS FINANCIAL STABILITY****ALINA HRYBOUSKAYA, ANASTASIA VERIGO****Polotsk State University, Belarus**

The article deals with the contents of the categories "financial stability" and "financial soundness." The studied and systematized indicators assess the financial soundness of the banking sector.

The concepts of economic security, economic (financial) and structural soundness, stability, reliability, maximum risk functioning of the financial and economic system are often used in the scientific literature and economic practice.

In a similar sense most authors did not determine that they are synonymous, nevertheless, accurate overall differences that these terms are taken have until recently been known. The reason for this condition is the overlap between the concepts of various theoretical models of the analyzed systems of general systems theory, organizational theory, economics, general management theory, financial management theory and so on.

Furthermore, these differences in the understanding historically depend on professional affiliations and research problems (economic, financial, administrative, accounting, auditing, etc.). This leads to some confusion in the description of various states and assessments of economic entities. As a result, this raises errors in the analysis of the behaviour of complex economic systems, and most importantly, the justification of methods and the implementation of performance management of any business entity, including commercial bank. We believe that financial stability along with price stability and the stability of the balance of payments component is part of the macro-economic stability of the country.

Financial stability is the state of a financial system in which banks and non-bank financial institutions, other financial intermediaries, financial market and payment system properly carry out their inherent activity and are able to carry out such activities in the case of the destabilizing effects of internal and external factors [1].

In general, the stability can be determined by soundness to certain periods of time when interacting with the environment and ensuring the ability to reflect the disturbances action, and therefore, ultimately to support the preservation of the structural integrity, security, structure stability of external and internal communications, the ability to exercise their functions the most efficient way throughout the entire time of operation.

There is no "stability" in the definitions of "soundness" in the disclosure of the content of the unity of concepts. In some cases, the English term «financial stability» is translated into Russian as financial soundness. However, in our opinion, the financial stability and financial soundness are not synonymous. The meaning of "financial stability" is broader and means that the financial system is operating in a state of balance, keeping unchanged its structure. Financial soundness is represented in a balanced state, reflecting the ability of the credit institution to maintain it in the changing internal and external environments. At the same time financial soundness is the property of the financial system back to equilibrium after the impact of the termination, that brought her out of this state. Consequently, the financial stability of the financial system requires a balance, financial soundness. However, the desire to equilibrium, and its achievement is possible only in the absence of negative shocks.

Financial stability in Belarus involves stability of the non-financial, financial sector, financial markets, payment systems and sustainability to external and internal macroeconomic risks. The financial stability of the banking sector is characterized by a number of indicators: indicators of economic security; level of public debt; the budget deficit; cross-border capital flows; exchange rate, the degree of liberalization of the economy; economic growth; balance of payments deficit; the level and pace of interest rates, financial soundness indicators of the banking sector and others.

Certainly, financial soundness of the banking sector is one of the key elements of the financial stability of the banking sector. The Belarusian economic publications of financial soundness the banking sector is also quite poorly studied, but recently more and more attention is paid to this subject in the conditions of growing risks of crises in the world, the globalization of the economy and the impact of shocks on the banking sector.

Admission to the financial market of financially stable credit institutions is a necessary condition for the stable functioning of the banking system. Improving the system of evaluation of the commercial banks and their financial soundness contributes to the stability of both individual banks and the banking system as a whole. Such a system would allow to find troubled banks at an earlier stage through their monitoring, which allows for capital adequacy, asset quality, liquidity level of controllability, optimal structure of liabilities and financial performance.

Economics

We have investigated and systematized indicators of the financial soundness of the banking sector.

Due to the fact that the banking sector is closely linked with other parts of the state of the financial system, it was necessary to create a number of indicators. For comparability of performance indicators at the international level, the International Monetary Fund, together with the monetary authorities of the world has developed "Guidelines for the compilation of financial soundness indicators", in which 39 indicators were used. These parameters are divided into two groups:

- basic set (12 indicators), which reflects the condition and soundness the banking sector;
- recommended set (27 indicators), including the financial sector indicators (including the banking sector), the household sector, the financial market and the real estate market.

The inclusion of indicators of non-banking sector, shows the relationship of the sectors of the economy, for example, adverse developments in the real sector can lead to lower quality indicators of banks' loan portfolio and, thus, adversely affect the financial soundness of the banking system.

We represent some of the characteristics of these indicators in accordance with the procedure set out in the publication of the International Monetary Fund, "Financial Soundness Indicators. For guideline development" (IMF, 2007) [1].

The ratio of regulatory capital to assets, weighted for risk, is calculated by dividing the value of regulatory capital by the amount of assets and off-balance sheet liabilities, the estimated level of risk.

Regulatory Tier I capital to assets weighted by risk, is calculated by dividing the value of the equity capital by the amount of assets and off-balance sheet liabilities, the estimated level of risk.

The ratio of the distribution of loans and borrowings by sectors to the total loans and borrowings is calculated by dividing the amount of debt on loans extended to banks the economic sector, in the aggregate amount of outstanding loans granted by banks to customers - residents and non-residents.

The rate of return on equity is calculated by dividing the sum of the profit for the 12 months preceding the reporting date, before income tax, the average chronological value of capital in the 12 months preceding the reporting date. The capital is calculated as the difference between total assets and liabilities.

The ratio of liquid assets to total assets ratio is calculated by dividing the value of liquid assets to the value of total assets. Liquid assets include cash, including precious metals and precious stones; means the National Bank (including funds deposited in excess of the fixed part of the amount of reserve requirements); securities which can be easily converted to cash; financial assets with maturity on demand and up to 90 days.

Capital ratio is calculated by dividing shareholders' equity by the amount of total assets. The capital is calculated as the difference between total assets and liabilities.

The spread between the highest and lowest interbank rates is calculated as the difference between the maximum and minimum levels of interest rates to attract funds in the interbank market during the quarter preceding the reporting date, expressed in basis points.

The ratio of foreign currency loans to total loans in foreign currency is calculated by dividing the amount of debt on loans for the aggregate amount of outstanding loans to customers by banks.

In addition to these groups of indicators to assess the financial soundness of the banking sector of the Republic are also examined generalized capital adequacy, loan performance, interest rate and currency risks, and liquidity risks in the whole banking sector. These figures are calculated on the basis of aggregated accounting and statistical reporting banks of the republic.

To assess financial soundness of the banking sector of the Republic of Belarus will consider financial soundness indicators according to the methodology of the International Monetary Fund in dynamics for 2014-2017 years at 01.01.

Consider the basic indicators of financial soundness of the banking sector indicators in the dynamics of 2012-2017 years of 1 January of the relevant year, calculated in accordance with the procedure set out in the publication of the International Monetary Fund, "Financial Soundness Indicators. For guideline development " (IMF, 2007) (Table 1).

The first figure in Table 1 is the capital adequacy ratio, and it is the main element of the Basel agreement on equity norm. This indicator increased in the considered interval, which is a good trend, because it shows the strength of the capital. The ratio of non-performing loans to capital reveals the possibility of the bank to cover losses, before the sector will be in a technical state of insolvency, the rate increases, which is regarded as a good result. Share distribution of loans by sector in the total volume of credits makes it possible to identify the degree of concentration of loans to a particular sector. In our case the figure is quite high, but a downward trend, but do not allow too high a level of this indicator, because it will lead to an increase in the bank, depending on the situation in this sector of the economy: economic activity, pricing, profitability, dependence on external markets etc.

Table 1 – Dynamics of the basic indicators of financial soundness of the banking sector according to the IMF methodology 01.01

Indicator	2014 y.	2015 y.	2016 y.	2017 y.	Abs. growth 2015/2014	Abs. growth 2016/2015	Abs. growth 2017/2016
The ratio of regulatory capital to assets weighted by risk	15,5	17,4	18,7	18,6	+1,9	+1,3	-0,1
Tier ratio of regulatory capital to assets weighted by risk	11,5	12,9	14,7	14,2	+1,4	+1,8	-0,5
The ratio of non-performing loans net of provisions to capital	14,0	14,6	21,2	38,9	+0,6	+6,6	+17,7
The ratio of credit allocation by sector to total loans: residents	100,0	99,6	99,5	98,6	-0,4	-0,1	-0,9
Assets profit rate	2,3	2,1	1,3	1,6	-0,2	-0,8	+0,3
Rate of return on net worth	16,2	15,3	10,4	12,6	-0,9	-4,9	+2,2
The ratio of liquid assets to total assets (liquid asset ratio)	30,0	29,7	26,0	24,6	-0,3	-3,7	-1,4
The ratio of liquid assets to short-term liabilities	89,6	89,9	75,8	51,0	+0,3	-14,1	-24,8
The ratio of net open currency position to capital	11,3	9,1	4,4	6,3	-2,2	-4,7	+1,9

Source: [1].

The rate of return on assets and equity in the above gap is reduced, that does not talk about improving the quality of the banking sector and improve its financial soundness. As for the net open currency position to capital, there is a downward trend, which is regarded as a good indicator of the dynamics of this, because the figure shows the dependence of banks on the exchange rate, ie exposure to currency risk.

Then we consider the dynamics of recommended indicators in accordance with the methodology of the IMF (Table 2). Gaps reflect the dynamics of the introduction of new indicators to assess the financial soundness of the banking sector.

Table 2 – Dynamics of recommended indicators of financial soundness of the banking sector according to the IMF methodology 01.01

Indicator	2014 y.	2015 y.	2016 y.	2017 y.	Abs. growth 2015/2014	Abs. growth 2016/2015	Abs. growth 2017/2016
Capital ratio	14,0	13,3	12,8	13,5	-0,7	-0,5	+0,7
The ratio of large exposures to capital	127,6	140,7	193,8	176,5	+13,1	+53,1	-17,3
The ratio of personnel expenses to non-interest expenses	-	6,1	5,4	5,3	-	-0,7	-0,1
The spread between the highest and lowest interbank rates, basis points	-	4 050,0	1 170,0	900,0	-	-2 880	-270,0
The ratio of customer deposits to total loans (excluding interbank)	-	81,1	87,6	89,4	-	+6,5	1,8
The ratio of foreign currency loans to total loans	51,3	52,3	58,1	57,5	+1,0	+5,8	-0,6
The ratio of foreign currency liabilities to total liabilities	63,5	63,3	74,1	72,6	-0,2	+10,8	-1,5

Source: [1].

Economics

According to Table 2, we have come to the conclusion that the ratio of capital to assets is reduced, which is a good trend. The ratio of personnel expenses to non-interest expense is also reduced, which again is a good sign for the banking sector. The spread between the highest and lowest interbank rates decreased, and it is characterized as a positive direction of the indicator. As shown in Table 2, a considerable amount of new indicators have been added in the last three years. In our opinion, this is due to the increased interest in higher authorities according to positions within the modern trends of development of the country's banking system.

To conclude, despite some progress in the formation of the system analysis of the financial soundness of the banking sector, followed by the National Bank of the Republic of Belarus, the tools need to be further improved and developed.

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