



CONCEPT OF FORMATION AND IMPLEMENTATION OF FINANCIAL STABILIZATION POLICY

Savchenko Konstantyn Viktorovich *
*Academy of Municipal Management
State and Local Finance Department*

Article history: Received on 21 November 2014; Accepted on 01 December 2014

Abstract: *In this paper the theoretical and methodological approach to the formation and implementation of financial stabilization policy in modern conditions of the Ukrainian economy is formulated. The key principles of this policy; stages of its development and implementation; goals, objects and subjects; methods, forms and instruments; factors that affect the possibility of stabilization measures and their effectiveness are identified.*

Key words: stabilization policy, concept, financial mechanism, financial instruments.

STATEMENT OF THE PROBLEM

Consequences of the financial crisis of 2008-2009 showed the need to review the strategy of economic regulation, based solely on the corrective effects on the functioning of the market mechanism, which confirmed its effectiveness under conditions of the relative stability of the economy and the absence of significant external shocks. For state and supranational oversight the issues of cyclical economic development research, formation and implementation of appropriate stabilization policy, especially in the financial sector, come to the fore again.

It is equally important issue of developing an effective financial stabilization policy is also for Ukraine. At the same time, strengthening the country's dependence on global markets as a result of the integration process, peculiarity the current stage of the world economy development requiring reviewing purposes, the methods, tools and forms of financial stabilization policy and hence the formation of a new mechanism for its formation and implementation to be adequate the new economic conditions.

ANALYSIS OF RECENT RESEARCH AND PUBLICATIONS

Stabilization policy and economic stability are some of the most relevant subjects of research in economics. Many works of scientists-economists, among which are Ukrainian: A. Chukhno, A. Danylenko, V. Fedosov, A. Halchynskiy, V. Heiets, V. Oparin, S. Yuriy as well as foreign: J.M. Keynes, P. Samuelson, S. Fischer, M. Friedman, E. Hansen, J. Schumpeter and others, are devoted to the issues of financial policy and the role of financial instruments to provide stability. However, the problem of an adequate stabilization policy is not solved. Further study the chosen subject caused by the need of a new approach to the formation and implementation of

financial stabilization policy in modern conditions of the Ukrainian economy, which confirming the relevance of this study.

FORMULATION OF RESEARCH OBJECTIVES

The purpose of this paper is to formulate theoretical and methodological foundations of the concept of formation and implementation of financial stabilization policy in modern conditions of the Ukrainian economy. The objectives in the context of this goal will be:

- Specification of basic principles of the financial stabilization policy formation;
- Formulation the purpose of financial stabilization policy;
- Identifying of key objects and subjects entrusted with functions related to the design and implementation of financial stabilization policy, allocation of powers between them;
- Identifying of methods, forms and instruments of financial stabilization policy, as well as factors affecting the possibility of stabilization measures and their effectiveness.

MAIN FINDINGS AND ITS RATIONALE

To the financial policy ensuring solve economic problems caused by cyclical fluctuations and destabilizing factors in the financial sector, the process of its design and implementation should occur in a particular sequence with respect certain principles. Also, this process should be based on an effective and coherent financial mechanism with features selection required methods, forms and instruments of regulatory impact.

The general concept of formation and implementation of financial stabilization policy should include a number of interrelated and mutually elements, namely:

- principles of the financial stabilization policy

* E-mail: m-panko@mail.ru

formation;

- gradual sequence of development and implementation;
- the purpose of financial stabilization policy;
- objects under the regulatory impact;
- subjects entrusted with functions related to the design and implementation of financial stabilization policy, allocation of powers between them;
- methods, forms and instruments of financial stabilization policy, the nature and extent of their influence;
- factors affecting the possibility of stabilization measures and their effectiveness.

Summarizing the methodological principles of financial stabilization policy, as recognized in the work of local researchers [1, 2, 3], the main of them are interrelated and may be complementary in some aspects. General characteristics of these principles are presented in Table 1.

In addition to the aforementioned, the scientific literature is also made the following additional principles as the availability and certainty of financial stabilization

policy that provides for its clarity for economic agents and uniqueness of its interpretation; and the principle of continuous improvement applied to financial stabilization policy forms, methods and instruments of regulation.

From the nature of financial stabilization policy, its main strategic objective is smoothing cyclical fluctuations in the economy through financial methods and tools. Specification of this strategic goal will be different depending on the phase of the economic cycle, overall development of the economy and financial system, the existing problems of socio-economic development. Thus, at the stage of economic growth strategic objective of stabilization policy can be chosen as inflation limitation, during the recession – reducing unemployment and activation of entrepreneurship.

Therefore, formulation a strategic goal of financial stabilization policy and determine in accordance with it tactical and operational objectives is the first step of the algorithm implementation of financial stabilization policy.

Table 1 - Characteristics of the principles of financial stabilization policy*

| <i>Principles</i> | <i>Characteristic</i> |
|---|--|
| Focusing on the final (strategic) goal, goal's consensus | The strategic goal and submitted subordinate goals should be established during the development of financial policy. The choice of regulation methods, forms and instruments should provide the most effective achievement of strategic goals. It is also important to avoid conflicts of objectives, ensuring their coorientation. |
| The scientific validity | Financial stabilization policies should take into account the objective economic laws and the laws of the economy functioning, and should not be subordinated to the interests of a particular social group or subjective wishes of individuals, as this may make it inefficient and lead to negative consequences |
| Providing macroeconomic balance in all areas and sectors of the economy | Ideally, the economic regulation by the use of financial stabilization policy should be comprehensive and aimed at providing simultaneous equilibrium in all sectors and industries. While mainstream exposure can be limited specified area of financial relations, but measures should not create imbalances and irregularities in the development and functioning of other sectors and industries |
| Compliance with social and individual interests | Implementation of financial stabilization policy should contribute to achieving public interest objectives – development of production, reduce unemployment and so on. However, it should not conflict with the interests of individuals or economic agents |
| The systems approach | Financial stabilization policy is seen as a complex system and is a component of financial policy and more general – economic policy. Optimization of financial stabilization policy is not possible without taking into account the influence of its internal and external factors, estimates of real economic conditions, reserves, potential threats and opportunities |

* Compiled by the author

The next step is to select the type of financial stabilization policy in line with what degree of intervention in the economy is necessary and most appropriate to implement the strategic goal in the current economic climate – strict regulation, moderate regulation or policy of minimum limits; and depending on whether possible to achieve these goals on the basis of the "automatic stabilizers" – discretionary or non-discretionary policy.

One of the most important steps that affect the efficiency of financial stabilization policy is to establish priorities for choosing the direction of its implementation – preference measures of monetary or fiscal impact.

The next stage of development of the financial stabilization policy is choosing the specific instruments of fiscal and monetary policy with the establishment of the planned values; the change parameters; the period of

application; etc.

Stage of financial stabilization policy implementation involves performing the tasks using the preferred tools of influence. Especially important at this stage are, first, the control over the accordance the measures with the planned ones, and secondly, the economic environment monitoring, assessment and prediction of changes in it. Timely detection of such changes and adjustments in accordance with it the tasks and measures of financial stabilization policy are essential to ensure its effectiveness and efficiency.

Multidimensional nature of financial stabilization policy, which is due to the complexity and multilevel structure of the financial system, as well as the complexity of tasks that arise from the need to align the proportions of development and stabilization processes in various areas

and levels of the financial system, resulting in expanding the list of subjects of financial stabilization policy and the

formation of an extensive system of financial management (Table 2).

Table 2 - Functions and areas of influence of the main subjects of financial stabilization policy*

| <i>Sphere of influence</i> | <i>Regulation objects</i> | <i>Regulation subjects</i> | <i>The nature of influence, measures</i> |
|--|---|---|---|
| Money and credit market | Currency | National Bank of Ukraine (NBU) | Sole right to issue currency; surveillance, register, regulation of payment systems |
| | Discount rate | | Refinancing of commercial banks, lender of last resort |
| | Exchange rate | | Currency regulation and currency control, transactions with gold and currency reserves |
| Fiscal and tax area | Taxation, customs | Parliament of Ukraine | Upholding the list of taxes and duties, tax rates and rules |
| | | Ministry of Finance | Formation of tax and customs policy |
| | | Ministry of Revenue and Duties (MRD) | Administration of taxes and duties, monitoring of compliance with tax and customs legislation, customs control |
| | Government spending | Parliament of Ukraine | Approval of the State Budget of Ukraine |
| | | Ministry of Finance (MF) | Development of the budget policy, the creation of the draft State Budget of Ukraine, the budget execution management |
| | The public debt | Ministry of Finance | Making internal and external public loans, public debt management |
| National Bank of Ukraine | | Agency services on placement of government securities | |
| Pricing | The price level | National Bank of Ukraine | Providing the national currency stability, price stability |
| | Prices, tariffs | Ministry of Economic Development and Trade (MEDT) | State regulation of prices (tariffs) for goods and services |
| | The prices of natural monopolies | Antimonopoly Committee | Control over price imposed on products of natural monopolies |
| Social area | Pension and social welfare | Ministry of Revenue and Duties | Administration of a unified social contribution |
| | | Pension fund (PFU), funds of obligatory public insurance (FPI) | Accumulation of funds, its management, payments |
| Financial market / financial services market | The banking system | National Bank of Ukraine | The regulation and supervision of banking, providing the banking system stability |
| | Stock market | National commission on securities and stock market (NKSSM) | Realization of state policy on the development of the securities market, regulation of emission and circulation of securities and derivatives |
| | Insurance market, non-bank financial institutions | National commission for the state regulation of financial services markets (NKFS) | State regulation of non-banking finance companies and credit institutions, insurance companies, and private pension funds |

* Compiled by the author

Implementation the financial stabilization policy and enforcement functions of the regulation in this area occurs due to the financial mechanism.

Author's vision of the financial mechanism structure is shown in Fig. 1.

There are a number of internal and external factors, which affects on the ability to use certain tools of regulation, their level of efficiency, and the ability to fully achieve the goals of financial stabilization policy (Fig. 2).

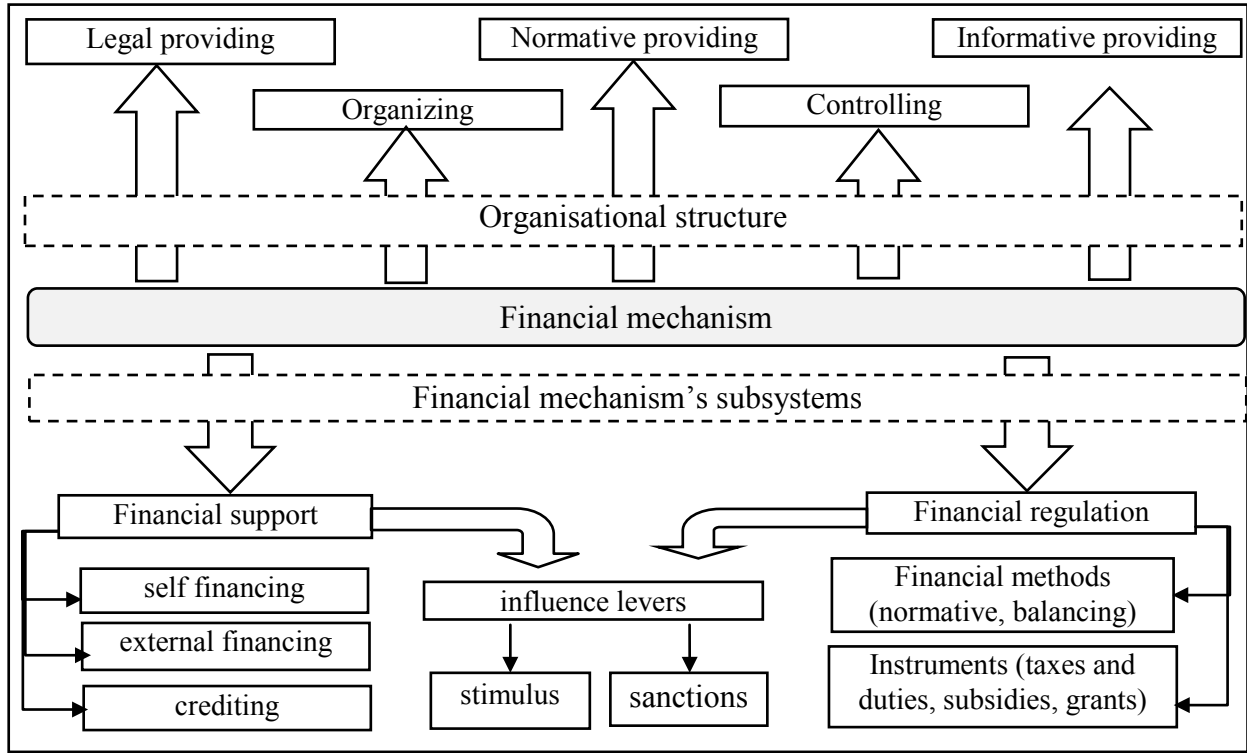


Figure 1 – Structure of the financial mechanism of financial stabilization policy*

* Compiled from [2, 4, 5, 6]

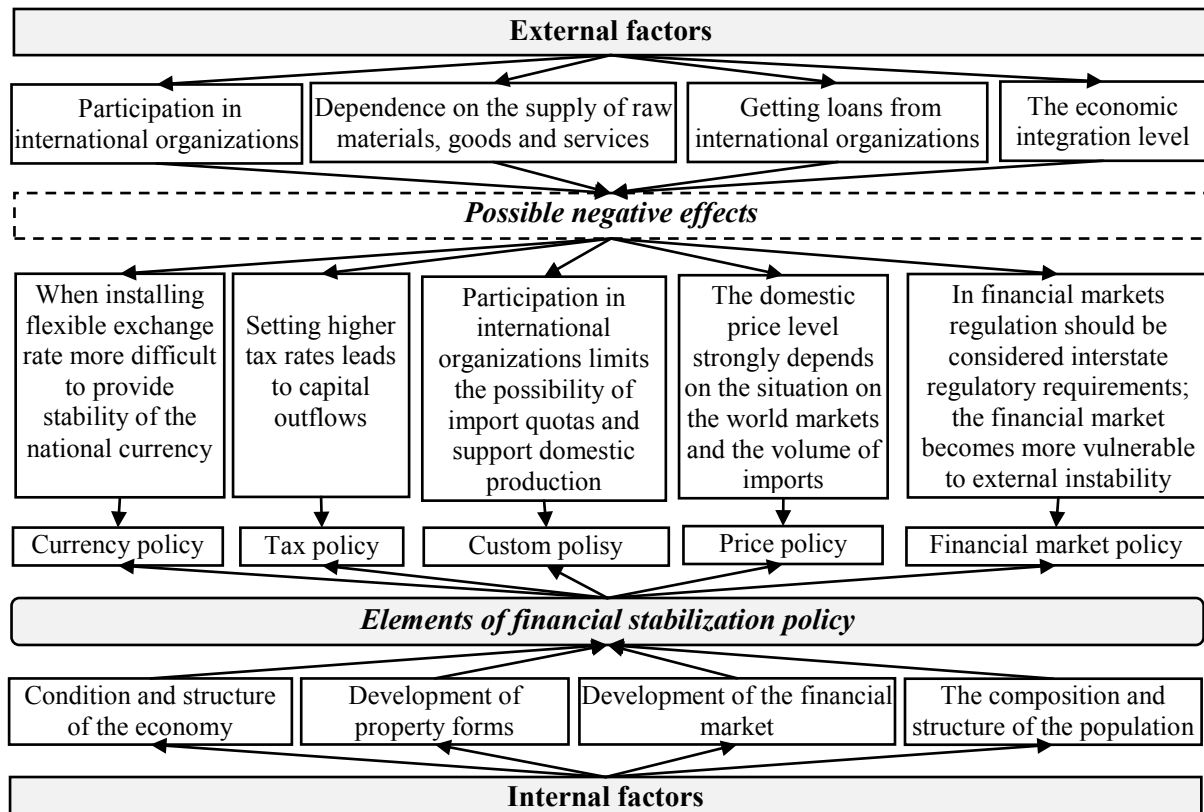


Figure 2 – Factors of influence to achievement of financial stabilization policy goals*

* Compiled by the author

Summarizing the results of research on the concept of financial stabilization policy, we note that its characteristics vary depending on the stage of the historic and economic development and key strategic goals in the financial sector (Fig. 3).

CONCLUSIONS

As a result, we note that the concept of the formation and implementation of financial stabilization policy is characterized by dynamism, and features of its construction and operation are dependent on many internal and external factors.

The characteristic features of the present stage of economic development of a society are: the increasing complexity, multi-tasking and structuring mechanism of financial stabilization policy, its going beyond national boundaries and increasing role of supranational regulatory institutions in developing and implementing financial

stabilization measures at both the national and the international level.

Practical implementation of the proposed concept will reduce the adverse effects of the crisis and improve the higher level of socio-economic development of Ukraine.

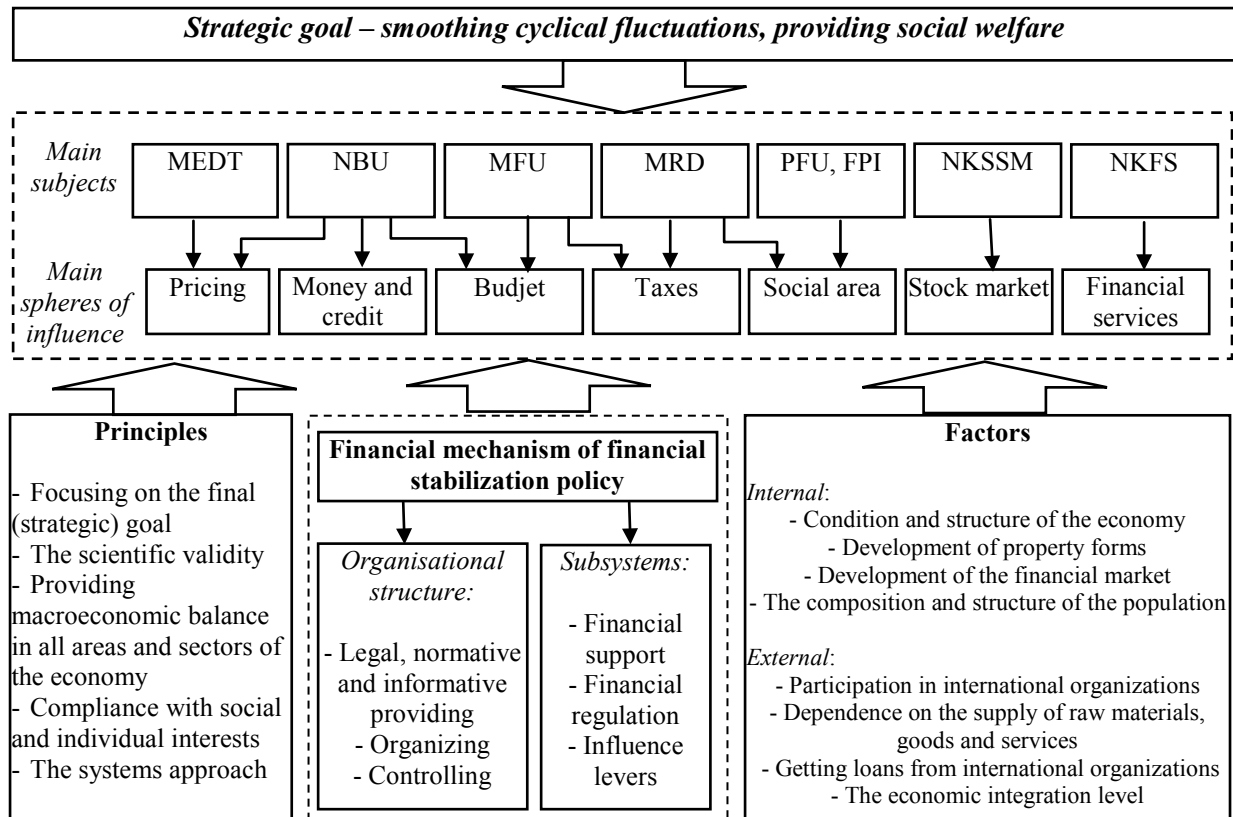


Figure 3 – Concept of formation and implementation of financial stabilization policy in Ukraine*

* Compiled by the author

REFERENCES

[1]. Vasylyk O.D. *The theory of finance: a textbook*. Kyiv, Kyiv National University named by T.G. Shevchenko, 2003, 416 p.
 [2]. Oparin V.N. *Finance (general theory)*. Kyiv, KNEU, 2005, 240 p.
 [3]. Yuriy S.I., Fedosov V.M., Alekseienco L.M. et al. *Finance: a textbook*. Kyiv, Znannya, 2008, 611 p.
 [4]. Danylenko A.I. The problems of financial policy of Ukraine

and the development of financial and monetary instruments of its implementation. In: *Finance of Ukraine*, 2007, № 9, p. 51-58.
 [5]. Heyets V.M. *Ukraine's economy: a long-term strategy and policy development*. Kyiv, Institute of Economics and Forecasting NAS of Ukraine, 2003, 1008 p.
 [6]. Fischer S., Dornbusch R., Shmalenzi R. *Economics*. Moscow, Delo, 1995, 864 p.