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INFLUENCE OF INTERNATIONAL FINANCIAL RELATIONS ON THE FINANCIAL STABILITY OF NATIONAL BANKING SYSTEMS

Abstract

The tendencies of influence of the global financial architecture on the financial stability of national banking systems are defined. The threats and possibilities for the provision of financial stability of the banking system (FSBS) arising from the impact of international financial relations on it are proved. The main focus is paid on the identifying of the relationships between the level of financial stability of the banking system and the level of the external borrowings of the banking sector in Ukraine.

Key words:

Financial stability of banking system (FSBS), world financial architecture, globalization, international capital movement, reserve currencies, International Monetary Fund, loans.

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JEL: G21, F33, F50.

Problem definition. International financial relations are one of the most important and the most difficult elements of the functioning of the global market mechanism. Together with the development of the process of internationalization of the majority of financial and commercial relations the volumes of international flows of goods and services are growing, where the movement of loan capital occupies a special place. That is why the international financial relations have very specific impact on the laws of monetary circulation in the national economy of individual countries. Taking into consideration the processes of internationalization and globalization, more and more countries gradually united into the one financial community. However, the significant dependence of the underdeveloped countries and developing countries on foreign capital leads to the problem of violation of financial stability of the national banking systems due to the fluctuations in the world economy, ie the factors which can not directly affect these countries.

Thus, together with the development of the processes of internationalization of the financial and economic relations, the banking systems begin increasingly depend on the international financial relations, creating the new threats for the financial stability of the banking system (FSBS), and this in turn leads to the urgency of this scientific research.

Analysis of the latest researches and publications. Fundamental principles of research of the conditions of sustainable development of financial systems are highlighted in the works of F. Allen, T. Beck, O. P Bykov, A. Berger, N. Valks, D. Diamond, E. Demirhuk-Kunt, E. Crockett, M. Kuintin , M. E. Mamonov, R. Rajan, and J. Tobin, H. Minsky, F. Myshkin, H. Shynazi et al., O. I. Baranovskyi, A. P. Vozhzhov, O. D. Vovchak, V. M. Heyts, O. V. Dzyublyuk, I. B. Ivasiv, V. V. Korneev, V. M. Kochetkov, B. L. Lutsiv, A. M. Moroz, L. O. Prymostka, M. I. Savluk and others also examined these issues. However, the analysis of scientific literature on the topic of research suggests that a number of theoretical and applied problems are still unsolved. Thus scientists ignored the question of the influence of the international financial relations on FSBS of the separate countries of the world.

Therefore, **the aim of the paper** is to identify the threats and opportunities for Ukraine's banking system which arise as a consequence of influence of the global financial architecture, which in turn will outline the directions of adjustment of foreign policy of Ukraine in the context of FSBS support.

The impact of the international financial relations on the financial stability of the banking systems is evident in several areas: the functioning of the global financial architecture, international capital flows, globalization processes, and the impact of the international credit rating (Riazanova, 2001, p. 119). On the Fig. 1 the author's opinion as to their impact on the financial stability of the banking system is shown.

The global financial architecture – is a set of economic relations, which are connected with the functioning and turnover of the world of money providing service of all kinds of financial and economic relations between the countries (foreign trade, investment of incomes, export of capital, international loans and grants, development of tourism, scientific and technological activity and exchange, international private and public transfers, etc.).

The main aspect of influence of the global financial architecture on the financial stability of the national banking systems is that by integrating into the international financial area, banking systems lose their autonomy and are more dependent on the global economic processes.

Studying of the basic structural elements, including: reserve currency, global money commodity, international monetary liquidity, exchange rate regime, currency restrictions, parity and convertibility, international foreign exchange market; international monetary and financial institutions, intergovernmental agreements is very important for understanding of the trends of impact on the financial stability of the banking systems of the global financial architecture (Stelmakh, 2006, p. 505).

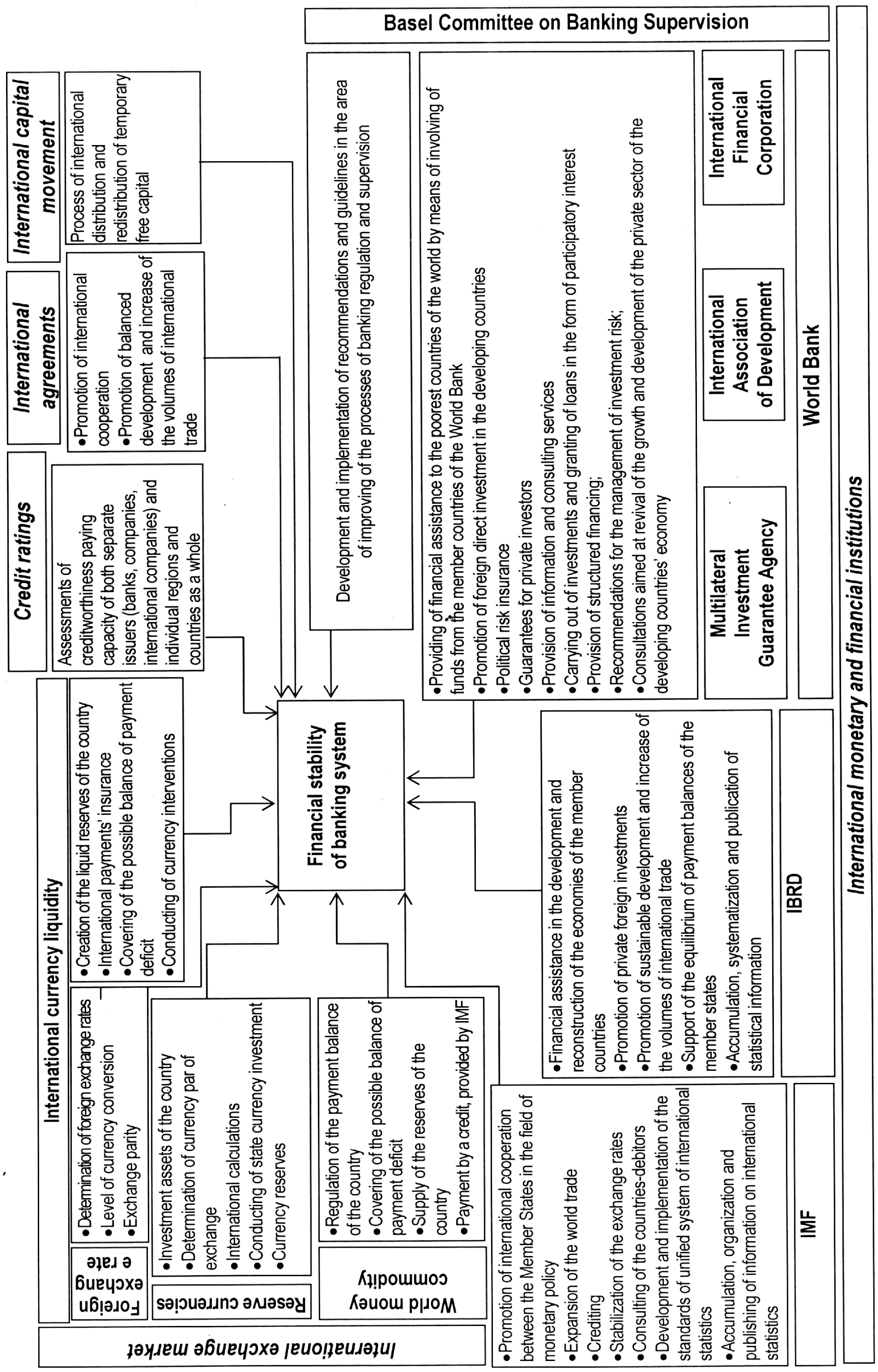
Let us consider the impact of the above mentioned elements of the global financial architecture on the financial stability of the banking system in more detail.

The financial stability of the banking system is largely dependent on the reliability of those **reserve currencies** which constitute the basis of its foreign exchange reserves. That is, in fact, an economic paradox – the country's foreign exchange reserves, accumulated to save her own solvency and to hedge against the possible consequences of financial crises can simultaneously be a source of political and economic instability, resulting from not only the domestic economic situation, but also, most importantly, adverse economic fluctuations of the international monetary system.

For these reasons there is a need for adequate shaping of foreign exchange reserves, which would be able to ensure the national financial security. The main reserve currency for the National Bank of Ukraine is the U.S dollar and total reserves in Ukraine in 2012 decreased by 22.8% or 7,248.42 million, from U.S. $ 31,794.61 million to 24,546.19 million (http://bank.gov.ua). Thus, the financial stability of the Ukrainian economy and, consequently, the banking system is largely dependent on the activity of the National Bank of optimizing the structure of foreign exchange reserves to the conditions of the international economic environment.

Figure 1

Directions of influence of international financial relations on FSBS



The main reserve currency for the National Bank of Ukraine is the U.S. dollar, and total gold and currency reserves in Ukraine in 2012 decreased by 22.8% or 7,248.42 million, from U.S. $ 31,794.61 to 24,546.19 (http://bank.gov.ua). Thus, the financial stability of the Ukrainian economy and, consequently, the banking system is largely dependent on the activity of the National Bank which deals with the optimization of the structure of foreign exchange reserves to the conditions of the international economic environment.

Global money commodity is an instrument for servicing of the international monetary relations and it is adopted by each state as a certain equivalent of value of the exported things of value. Convertible currencies, special international and regional payments units can act as a global money commodity. *The world money commodity is of particular importance for the financial stability of the banking system of the country as the most countries are in a different currency unions, and are dependent on the negative impacts of a changing international environment.*

International currency liquidity which is in a dialectical interaction with the world monetary commodity shows the state's ability to recompense its own international financial obligations in the form of acceptable to its lenders means of payment. If the international monetary liquidity is considered in terms of international monetary and financial relations, it is a combination of certain sources of financing or financing of global payments turnover, and therefore is fully dependent on the international reserve adequacy of financial resources. From the viewpoint of the national economy, it shows the creditworthiness of the states.

The impact of international currency liquidity on the financial stability of the banking system is somewhat specific. International currency liquidity is formed as a result of cooperation between the banking system and the international economic community based on the certain financial and currency transactions. That international monetary liquidity is an exogenous factor in relation to the banking system, but its effective level depends largely on the principles of the banking system management sideways the central bank (the use of gold and currency reserves, the rate of their reduction and replenishment, the quality of their use, etc.). Thus, although its impact on the financial stability of the banking system is external, it is largely conditioned by the internal factors.

Exchange rate regime, **currency restrictions**, **parity and convertibility** are the important elements of the global financial architecture. If the central bank introduces the fixed exchange rate, the situation concerning the establishment of the national currency at a certain constant level arises. There is a practice when the central bank under conditions of a fixed exchange rate regime establishes different exchange rates for different transactions and thus forms a plurality regime of fixed exchange rates in the state. It is obviously, that this position of the central bank can not meet the objective economic processes in the world. Ultimately, the economic, and, accordingly, the banking system of the country may be in a monetary isolation, which prevents the further economic development and growth. The concomitant negative factor of introduction of regimes of fixed exchange rates is also a long-term fixation and binding. In other words, the exchange rate within or at the end of the period of fixation may not fully show the economic situation at the beginning of such period. As a result, a problem of the growth rate of inflation or unreasonably high rates of deflation in the country may arise.

Financial stability of the banking system is vulnerable if the state regulation and fixation of the exchange rates is higher.

Under conditions, when the currency restrictions are absent or partially absent, the regime of floating exchange rate is established. Within the framework of such regime the exchange rate can be changed relatively free, depending on the fluctuations concerning the supply and demand on a particular currency. However, this regime does not exclude the possibility of central bank's conducting of foreign exchange control measures. The financial stability of the banking system under conditions of introduction of the given currency regime provided input of the exchange rate regime is largely dependent not only on the domestic economic situation, but also on fluctuations in the supply and demand for the currency peg in the international monetary system. Therefore, in this context, there is uncertainty, which may cause a breach of the financial sustainability of the national banking system.

In the government and the NBU activity, the practice of using exchange rate band regime is common. The most famous example of this practice is the establishment of the gradual consideration sideways the extension of the fluctuations of hryvnia exchange rate fluctuations as regards to the U.S. dollar. *Despite the fact that the exchange rate band regime is the most appropriate to the supply and demand on the currency, it also provides a significant liberalization of the foreign exchange regulations, which means the lower security level of the currency and financial stability of the banking system.*

According to the NBU Resolution №192 the **international currency market** (**ICM**) is understood as the «totality of relations in the sphere of foreign currency outside Ukraine between the market entities and foreign counterparties on behalf of and at the expense of the market entities engaged in trading of foreign currencies outside Ukraine»[1] *. By means of ICM the central banks can influence on the financial stability of the banking system of the country in the following areas: management and optimization of the foreign exchange reserves, foreign exchange investments, regulating of the level of domestic interest rates, attracting of financial resources in loans for conducting of domestic operations, regulation of imbalances in the currency structure of the loan and deposit portfolios.

[1] Про порядок та умови торгівлі іноземною валютою [Електронний ресурс] : положення НБУ від 23.05.2007 № 192. – Режим доступу : http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=z0950-05

On this basis, the financial stability of the banking system depends on the effective cooperation of the central and commercial banks with the international currency markets. Their rapid response to the unfavorable conditions in the national economy and fluctuations in the supply and demand in the global foreign exchange markets is the basis of the further crisis-free operation of any state.

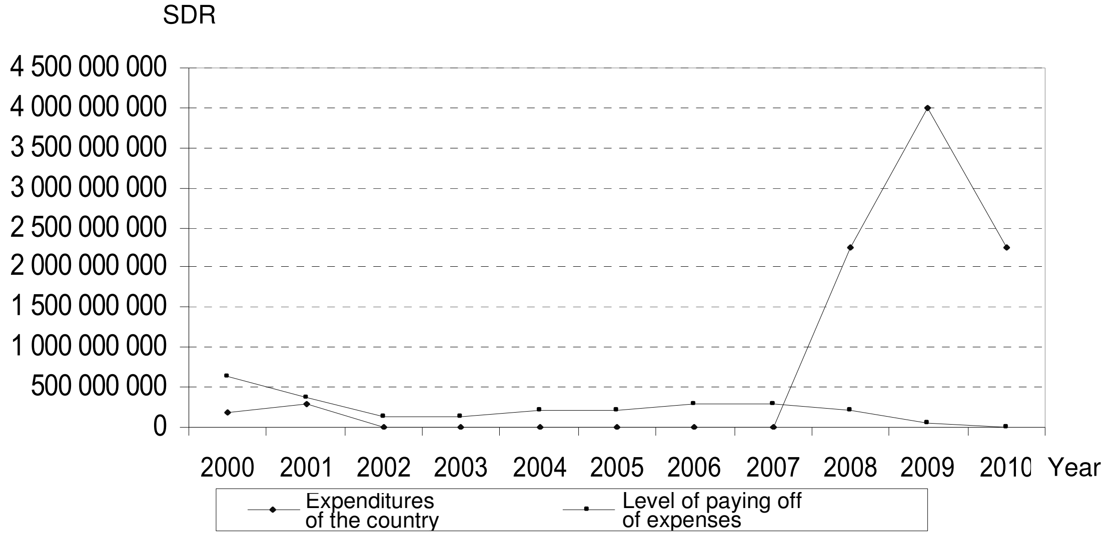
Activities of the international monetary and financial institutions has quite a significant impact on the financial stability of not only banking systems which are directly involved into the international financial flows, but also the economies of the different countries as a whole.

In this context, the International Monetary Fund (IMF) is of particular importance, which is a specialized agency of the United Nations. The basis of the IMF is to provide the short-and medium-term loans to the states in the event of emergence of the payments balance deficit. However, unlike a simple bank loan, the IMF loan has a very specific feature: it is generally available to the states while exhibiting certain guidelines and conditions which hypothetically should be focused on stabilizing of the economic situation in the country.

Since the proclamation of its independence Ukraine very closely cooperates with the IMF in both financial aid and government regulation obtainment, as evidenced by the dynamics of transactions (the ratio between the target costs and amounts of the repaid debts) with the IMF, Ukraine (Figure 2).

Figure 2

Correlation between the expenditures of Ukraine and redemption of costs and credits of the IMF (http://www.imf.org/external)

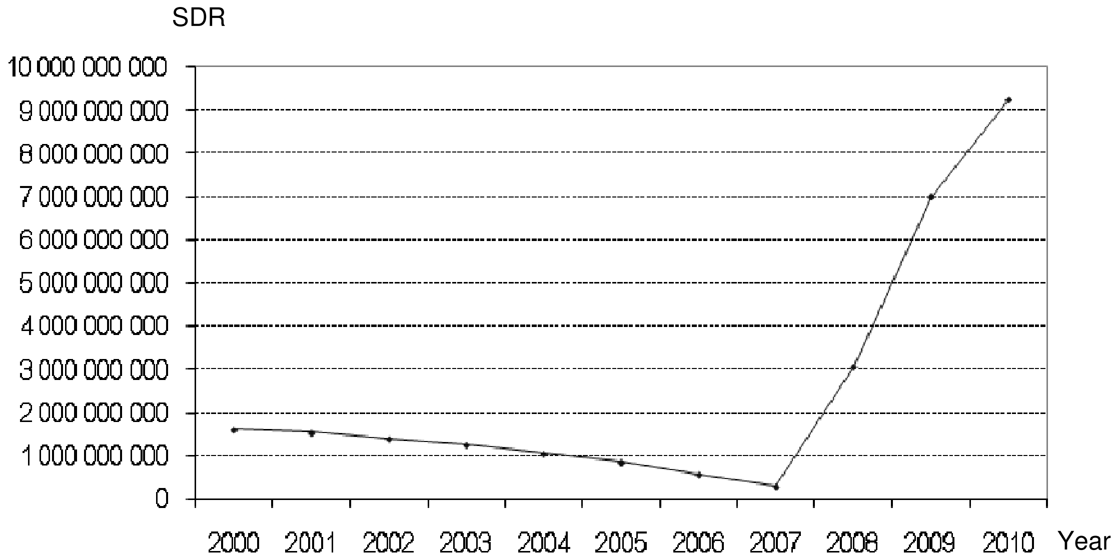


By early 2007, Ukraine has attracted substantial financial resources from the IMF, but gradually redeemed its obligations: the actual costs for the period 2002–2007 were at 0 SDR. However, because of the global financial crisis the expenditures rapidly increased to 4 billion SDR in 2009, and then in the next year fell to 2.25 billion. The level of repayment of loans tended to decrease from 278 million SDR in 2006 to 0 SDR in 2010. This dynamics indicates the structural changes in the economy and a sharp increase in funding of requirements, which makes the domestic banking system dependent on the IMF loans. The growth in outstanding loans (Figure 3) only worsens the economic situation and the financial stability of the banking system of Ukraine.

The data in Fig. 3 indicate a gradual decline in the outstanding loans during 2000–2007, from 1.5 billion SDR to around 300 million SDR respectively. However, starting with 2007, the volume of outstanding loans tended to increase and summarizing the results in 2010 amounted to over 9 billion SDR, i. e. increased only 30 times in 3 years. This trend points to the devastating impact which caused the crisis in the Ukrainian economy in 2007, and the total need of the attracting of funds into the different sectors of economy.

Figure 3

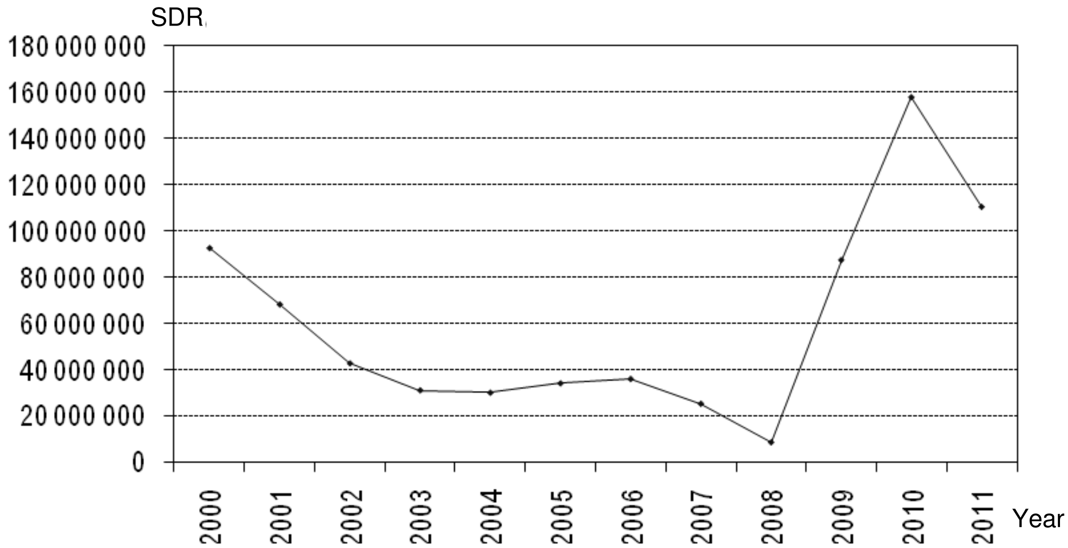
The volume of outstanding loans of Ukraine in the IMF
(http://www.imf.org/external)



However, the dynamics of interest on loans paid by Ukraine to the IMF (Fig. 4) should be pointed out. As it is shown in Fig. 4, the dynamics also shows the reduction of volumes of interests on liabilities of Ukraine to the IMF in the period 2000-2004 (from nearly 90 million SDR to 35 million SDR, respectively), coinciding with the period of the economic growth and reduction of the borrowed funds from the IMF. In 2004, when the phase of economic instability started, the closer financial cooperation with the Fund was observed, resulting in the growth of the volumes of loans and interest payments to the level of 38 million SDR in 2006, but in the period from 2006 to 2008 the volume of interest paid tended to a sharp decline to about 8.6 million SDR, which can be explained by the deepening impact of the global financial crisis. Then, simultaneously with the amounts of loan, the increase of the volume of the interest paid to the level of 160 million SDR took place.

Figure 4

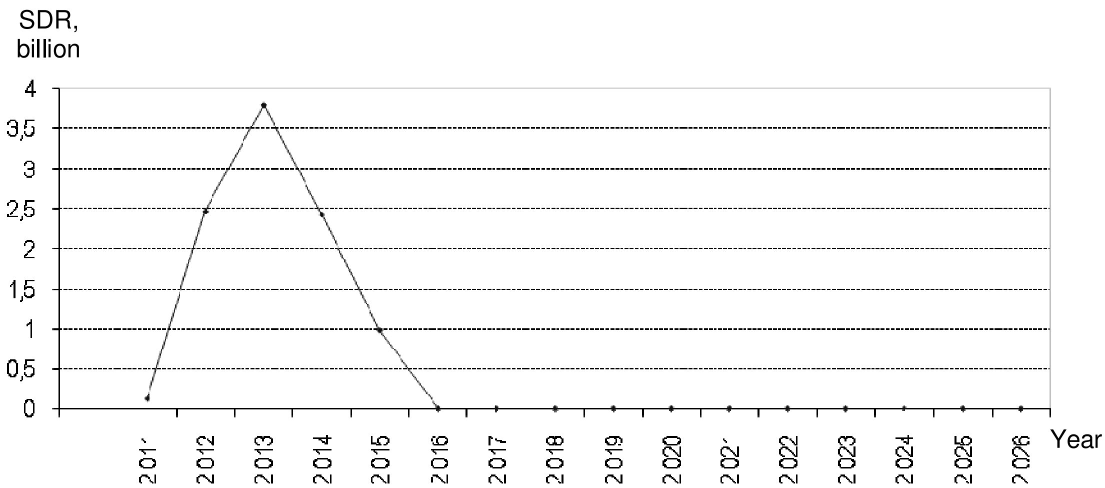
The total amount of the interests paid on the loans of Ukraine to the IMF (http://www.imf.org/external)



The developed IMF forecasts concerning the redemption of the principal obligations of Ukraine (Figure 5) are quite ambiguously from the point of view of the scope and terms. According to this forecast, by 2016 Ukraine should pay more than 10 billion SDR, and the balance of the debt will be distributed over the next 10 years to 2026 for almost equal parts (about 6 SDR million each year).

Figure 5

Predicted payments of the redemption of loans of Ukraine in the IMF in 2011–2026 (IMF)



However, taking into consideration the relatively slow Ukraine's withdrawal from the phase of deep recession, the reduced revenues and increased expenditures, repayment of fairly large amounts of debt in 2016 is unlikely. In addition, the dynamics of today points to significant amounts of liabilities to be settled by Ukraine in the next 15 years. At the same time, under conditions that in the next 5 years, the principal amount of the debt is not paid or even if the payment is conducted, it can have disastrous consequences for the financial stability of the banking system and the economy as a whole, due to the fact that in the first case, the inevitable sanctions against our country will be applied, and in the second – the banking system is likely to face a real challenge losing its ability to pay.

The empirical confirmation of the hypothesis about the negative impact of the loan dependence of the national economy on the IMF on the FSBS, was obtained summarizing the results of the analysis of relationships between the amount of loans of Ukraine before IMF (AOL_{IMF}) and indicator of *Z-statistic*, which is used by the experts of the IMF and the World Bank to characterize the level of the financial stability of the banking system: 1) the density of connection – high (correlation coefficient equal to -0.792), and the maximum connection is observed in the year of the loan obtaining, and 2) the direction of impact – negative:

$$Z\text{-}statistic = 48{,}12 - 2{,}53 \cdot 10{-}6 \cdot AOL_{IMF}.$$

Starting data to construct the regression equations describing the relationship between these parameters are presented in Table 1. The obtained results confirm that the growth of credit debt of Ukraine to the IMF is insignificant, but still reduces the financial stability of the banking system, which provides the revision of the strategic guidelines in policy cooperation between Ukraine and the IMF. The correlation coefficient is –0.792, which confirms the inverse relationship between the IMF crediting of Ukraine and stability of the banking system, i. e. the increase of the level of crediting reduced the level of the financial stability of the banking system.

Table 1

Dynamics of the volumes of non-redeemed loans of Ukraine to the IMF and indicator of Z-statistic, which characterized the level of the financial stability of banking system of Ukraine
(composed on the basis of (http://www.imf.org))

Years	Volume of the non-redeemed loans of Ukraine to the IMF, SDR	Z-statistic
2001	1520742147	37,74688
2002	1379993755	53,17628
2003	1235477090	44,40377
2004	1033677088	52,32662
2005	830851669	36,10273
2006	551876671	37,5237
2007	272901671	39,77947
2008	3057283337	49,95046
2009	7000000000	9,085084
2010	9250000000	15,35067

Another, no less important representative of the international financial institutions is the World Bank, which was established to provide the financial and technical assistance for the developing countries. The World Bank develops recommendations for improving of the organization of banking systems in the different countries and allocates the adequate financial resources to maintain their financial stability. International Bank for Reconstruction and Development is a key element in the structure of the World Bank, so let us consider the impact of the World Bank on the financial stability of the national banking systems.

Despite of the outward similarity of the main objectives of the IMF and the IBRD, their orientation is quite different. Unlike the IMF, which function is to promote the development of hypothetically any country in the world in order to achieve a wide range of economic objectives, the IBRD is the largest credit granter in the sphere of the economic development revival of the developing countries, i. e., with the averages of per capita income. Another difference between the IMF and the IBRD loans is that the IMF loan conditions are standardized and are provided as appropriate credit regimes. While the timing, rate and volume of lending by the International Bank for Reconstruction and Development depends on the specific conditions of the loan project, to be implemented in a particular state. However, it should be noted that to obtain loans from the World Bank the country should be a member of the IMF.

At the same time, for the IBRD lending, similar to the IMF, IBRD imposes certain requirements for the debitor countries which are usually related to the nature and direction of the state program of reconstruction and development of the national economy. All loans, provided by the member states have to be guaranteed by their governments. A specific feature of these loans is covering of only 30% of the project cost at the expense of the IBRD. The vast proportion of these funds is often directed to the development of the public infrastructure sectors, namely: communication, energy and transport.

It should be noted that the activities of the IBRD also find some negative opinions of economists, policy makers and international experts. The main goal proclaimed by the founders, is based on the fact that the IBRD should be an initiator, and later the organizer of the assignment of the private investment resources in the economy of its member countries and create in them a favorable climate and conditions for such investments. However, it should in principle avoid the investing their capital in the projects with a short payback period and significant profitability for projects to finance those sectors which are not attractive to private investors, but there is of a high priority for the countries. But in fact, the IBRD has been actively interfering in the internal politics and economic situation in the countries debtors to protect the interests of its core members – the United States, which held the imposition of appropriate development programs and organized pressure on governments. As a result of such targeted actions, the main objective of recommendations, technical advice and consultations of IBRD was stimulation of agriculture and exploration of the mineral resources for increasing of the volumes of product minerals for the further export to the developed countries.

Thus, the formal activities of the World Bank in lending is aimed at improving of the financial sustainability of the national economies and banking systems, resulting in the long-term provision of financing of certain economic sectors. However, on the other hand, it leads to the weakening of economic potential due to deliberate the interference in its political and economic system.

The World Bank Group, together with the IMF has a close relationship with Ukraine. Group is conducted not only the lending of the domestic banking system, but also a number of the analytical studies. In particular, from the standpoint of assessment of the financial stability of the banking system the particular interest has: 1) studying of the flow of investments in Ukraine, 2) research of the portfolio of domestic securities, and 3) global index of capital stock of S & P agency;

4) investigation of the financial sector of Ukraine: the relationship between the capital base of banks and their assets, 5) the dynamics of the interest rates on deposits and loans, and 6) dynamics of growth of the volumes of household lending to GDP (http://worldbank.org).

On this basis, to ensure the financial stability of the national banking systems informed decisions of the government and central banks to enhance cooperation with the World Bank are necessary, as well as a clear understanding of the possible financial consequences for the country and analyzing of the financial prospects of such cooperation.

The existence of the global financial system today is impossible without proof arrangements as between the countries and within the framework of political and economic groups, unions and financial institutions. Among the international agreements which regulate the activities of the commercial banks and banking systems, the International convergences on measurement and capital requirements, developed by the Basel Committee on Banking Supervision under the auspices of the Bank for International Settlements is of the tip priority – Basel I, II, III (http://www.bis.org).The main idea of these agreements is to develop standard requirements to the regulatory capitals of the banks operating at the international financial markets. At that, the standards concerning the primary and secondary bank capital and its adequacy are set. A special role in the three editions of Basel is given to the evaluation of the credit and market risks. In this context, both the requirements for the governments which have ratified the agreement and for the banks are developed. Each edition is a natural continuation and improvement of the previous one, based on the changing economic processes.

One of the main channels of influence of the international economic environment on the financial stability of the national banking systems is an international movement of capital. It is the location and operation of financial resources abroad, aimed at their gradual increase. Thus the process of the international distribution and redistribution of temporarily free capital is taken place, which presents foreign investment. Nowadays, the international capital flows are a major source of financial resources for the poorest and for developed countries. In addition, it is one of the most important tools to influence the financial and economic environment of the country and especially in the banking system as it mediates any financial transaction and becomes more involved in the global economic processes and integrated into the international financial community, largely due to the higher share of foreign capital in equity capital of the banks.

Similarly to the effects of the international financial institutions which in case of provision of the large amounts of foreign currency loans may significantly affect not only the economic and financial but also the political sphere, the international flow of capital leads to the dependence of the residents of the beneficiary country on the nature and direction of the international financial flows and financial resources and, consequently, their own vibration and possible adverse processes and phenomena. This means that there are residents of the probability of loss of liquidity, solvency or even bankruptcy practice only under the influence of the external factors.

This issue arises particularly acute if the question is about the banking system of the country where the commercial banks are the main instrument of the distribution of capital, including foreign.

At first look, one can conclude that the international movement of the capital provides the financial and economic growth both for the exporting country, because it obtains more economic benefits from more efficient use of their financial resources, and for the exporting country, which obtains the possibility of development of the certain sectors of national economy, using no or insufficient financial resources into it. However, on more detailed examination it is observed that attracting of additional foreign investment leads to the disruption of the financial stability of the state, especially related to its banking system. As a consequence of the fact that the movement of capital takes place under certain conditions and in certain currencies, industrially developed countries are able to cover certain manifestations of financial instability (increase in inflation, money supply imbalance in the economy, etc.) due to partial shifting them to the banking systems of the exporting countries. This leads to the emergence of the economic imbalances and their additional demand on foreign investment, ie the emergence of debt hole for exporters.

The prospects for the further economic development of the international financial community, and, accordingly, the U.S. are not quite clear. This is due to the fact that according to the international monetary institutions only 10–20% of the total volume of US dollars involved in the international monetary circulation is supported by the real tangible values. Therefore, virtually up to 80% of the total money supply in U.S. dollars is often considered as inflationary and this ratio is rapidly increasing. Significantly, it also has a considerable impact on the national currencies of the countries – exporters of capital, inasmuch as their exchange rates and parities are established in the most cases from the dollar peg, which is used by the majority of international financial calculations. However, such policy for the countries – exporters of capital is mainly effective in the short term period. In the long run it often causes serious economic imbalances, examples of which are the mortgage crisis in the USA and further escalation of the global financial and economic crisis. In this context, the question of support of the development of international capital flows is urgent.

However, despite of the obvious disadvantages, the international movement of capital also has a number of indisputable advantages for both exporters and importers of capital. These advantages reveal the significant opportunities not only for the organization of financial and economic activity, but also for the financial, economic and political influence, which in turn reinforces the financial stability of the countries which support investment funds abroad. In addition, unlike the loans of the international financial and monetary organizations which are granted on the basis of certain conditions aimed at proper use, private investments often require more flexible conditions and adaptation to the certain principles of government (eg, regulatory framework) for the specific investment projects. This greatly affects both the financial stability of the banking system of the state and the economic stability and, in part, the independence of the state as a whole. However, private investment can often be the only the source of investment resources to finance those sectors which at this stage may be underdeveloped.

Thus, while considering the need of attracting of the significant amounts of investment resources, the government together with the central bank should analyze the financial and economic consequences which may arise in the economy due to the influence of foreign investors because of their invested capital.

Globalization is one of the most controversial issues for today, inasmuch as it has a large number of positive and negative feedback in a society sideways the experts in various fields, politicians and others. The processes of globalization have a particular influence on the economic and, respectively the financial sector. This, in turn, has a significant impact on the development of banking systems and financial stability.

Growing of importance of the processes of economic globalization is taken place in different directions, which, respectively, determine its impact on the financial stability of the banking systems. These areas include: a dramatic increase in the extent and rate of movement of financial capital, exceeding in the growth rate of the world trade over the real GDP, the creation of global financial markets which operate in the real time within 24 hours throughout the year, deepening the trend towards a significant excess in the society of the importance of the financial sector over the real, rapid popularization and improvement of the information technology to accelerate the flow of capital, which supposedly includes the ability to rapid destruction of sustainable economic systems (Ivanytska, 2011, p. 35–43).

Despite of the trends presented above, it is difficult to say what the financial and economic consequences alone bears the process of globalization. Thus, the given process includes all the factors inherent to the global financial space. So, today almost any problem which caused the breach of financial stability of the banking system as a result of the external factors can be considered as a consequence of globalization.

However, there is an opportunity to highlight their pros and cons:

a) positive:

- Providing of fast, easy and efficient financial and economic relationship between the countries and their banking systems (due to the gradual development of correspondent relations between them);

- Creating of conditions for access of poor countries to the international financial flows and best achievements of NTP, which contributes to the improving of the principles of banking and customer service;
- Providing of savings of own financial resources by means of attracting of foreign capital;
- Promotion of the process of planetary finance and economic development;

b) negative:

- Creation of the peripheral economic model which automatically transfers the basic process of the financial and economic growth on the industrially developed countries;
- Flow of raw materials, skilled labor into the developed countries;
- The destruction of the small businesses due to its displacement by the medium and large ones, which significantly narrows the customer base of banks;
- Distribution of significant financial competition in the poor countries, which adversely affect on the operations of the banking system and commercial banks;
- Enrichment of the developed countries and a gradual increase of poverty in the undeveloped (Tysiachnikova, 2008, p. 200).

Thus, the further creation of the unique financial and economic space together with unconditional positive effects also has some disadvantages. This indicates a need for more detailed and precise management of the banking systems in order to provide the optimal functioning and financial stability, despite the possible negative impacts of the global economic space. Nowadays, credit ratings become more and more popular among the financial analysts, potential investors and international experts. Credit ratings are the analytical assessment of the creditworthiness and solvency of individual issuers (banks, companies, international companies) and individual regions and countries as a whole, on the basis of which the conclusions about the appropriateness of the direction of capital to these objects are made.

The world market for financial and analytical services is represented by the significant number of both international and domestic rating agencies and companies, but the most authoritative views on issuers form the following rating agencies: **Standard & Poor's (S&P); Moody's Investors Service; Fitch Ratings.**

International ratings of Ukraine as a whole (sovereign ratings), and commercial banks in particular (credit ratings) are quite low, which means a small investment attractiveness of the domestic financial system. Despite the ambiguous impact of the foreign capital on the banks of the countries it should be noted that weak investment activity of Ukraine causes a reduction in the financial stability of the banking system due to the lack of funding for banks. In turn, the effective functioning of banks depends not only on the domestic economic conditions, but also on external financing. Besides it, the most Ukrainian banks refuse from assigning of the credit rating for them, which lowers their investment attractiveness. This will obviously create barriers for capital inflows from abroad and international financial cooperation with other banking systems. Thus, the credit rating is very important factor of impact on the financial stability of the banking system.

Conclusions. Having made conclusions, we note that as a consequence of influence of the international financial relations the further threats and opportunities for the financial stability of the banking system (FSBS) emerge. Therefore, while the formation of the strategic directions of the foreign policy realization in Ukraine the provision of the national financial and credit sovereignty and support of Ukraine sideways the FSBS should be one of the top priorities.

Moreover, the prospects of Ukraine's cooperation with the IMF in terms of FSBS are rather ambiguous as to Ukraine and the IMF. The so-called «vicious circle» is formed: on the one hand, the economy of Ukraine today has become very dependent on the IMF financial assistance, which is intended to support the formal FSBS, on the other hand, despite the declared aims and a wide range of initiatives of the IMF, its activity does not contribute to stability, independence and development of the banking system and the national economy increased the dependence on the external credit flows, leading to a weakening of the economic potential of the country. If we consider this problem from the point of view of the IMF, then, given the relatively slow Ukraine's withdrawal from the phase of deep recession, reduced revenues and increased spending, the author considers unlikely the IMF forecasts developed concerning the volumes and timing of the principal repayment of obligations of Ukraine. This will inevitably lead to the application of the appropriate sanctions and could have disastrous consequences for the FSBS of Ukraine and for the economy as a whole.

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