



The Impact of the Global Financial Crisis on the Banking System of Russia

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ABSTRACT

The problem of the functioning of the banking institutions in Russia and Central Eurasia (CEA) in the context of their exposure to the global financial crisis. The crisis has become an integral part of the global economy. And the processes of globalization and integration have led to the fact that, originating in one state, in one economy, it is spreading to other countries and regions. Applying the methodology of historical and synchronous cross-country study suggests a mythological nature of the global financial collapse forecasts. But whenever any of the world's geo-economic zones, showed, unlike the others, who are in a state of crisis, high growth dynamics. There is therefore a need to study the impact of the crisis is in the regions, especially in terms of the functioning of banking institutions, as they are the backbone element of the economy. Bank CEA systems are in an unstable position, undergoing institutional transformation. It is therefore necessary to develop anti-crisis measures that will contribute to a smooth transition of regional economies from the crisis, to promote the sovereignty of the national currency, monetary integration, as well as the sustainability and stability of the functioning of the monetary and banking system.

Keywords: Global Financial Crisis, Real Sector, Banking System, Anti-crisis Measures

JEL Classifications: G01, E5, G24

1. INTRODUCTION

A feature of the global financial crisis is that it originated in the main pole of the world economy - The United States, and then exchanged a financial sector in the sphere of production, spread quite rapidly throughout the world. The global crisis has shown that the current world economic order is far from ideal. Some researchers believe that the separation of finance from production associated with the expectation of a new technological breakthrough. However, this is only one of many explanations of the ongoing global recession. However, it is quite obvious that the turbulence in financial markets closely linked with fluctuations in the global energy market.

Another feature of the global recession, reflected in the fact that the Central Eurasian (CEA) countries is much more affected by the financial crisis than the world as a whole.

The global financial crisis is manifested in the transformation of the structure of the global economic system that can lead to the emergence of a new socio-economic system of society.

The reasons for the crisis are external and internal.

External causes depend on the trends and strategies of the global economy, competition, the political situation in the country (Fischer, 1998).

Internal reasons depend on risky marketing strategy, internal conflicts, shortcomings in the organization of production, management imperfections, innovation and investment policies.

The reasons underlying the origin of the crisis also divided into casual and natural, artificial and natural. This is due to the fact that the possibility of a crisis there are always very important for successful socio-economic development of society it anticipate and predict.

The main causes of the global financial crisis are:

- Excessive saturation of the economy with money
- Increase in the number of loans issued
- Self-destruction of the financial pyramid of debt
- Falsification of ratings
- Underestimation of financial risks and the separation of the financial market from the real economy.

The main reasons for the financial crisis, has a significant impact on the socio-economic development of society, are unsustainable macroeconomics and credit booms. The instability of the macroeconomic development is manifested in the current account deficit and increasing public debt.

Extremely sharp and painful crisis was for the banking system, investment companies. It has caused an unprecedented collapse of stock markets, a very sharp decline in the prices of various raw materials, particularly oil (almost triple) and metals (by a third).

The banking sector is central to the financial system (Silnov, 2016) of any state and aims to ensure the achievement of the following goals:

- The transformation of domestic savings into investments with the lowest transaction costs
- Efficient allocation of resources
- Strengthening of fiscal sovereignty.

Effective factor for sustainable economic growth - is the presence of high-grade, competitive and reliable banking system.

The competitiveness of the modern banking system, and, consequently, the economy as a whole, depends on its ability

to deliver high-quality and adequate for the cost of financial intermediation services to all economic actors, as well as being resistant to all external influences (crises).

The understanding of the problem is an important global trends and the historical roots of the current financial and economic crisis and its impact on the banking system in Central Asia.

2. THE CONCEPT OF ECONOMIC CRISIS

Today, the concept of crisis is well known to everyone. However, for such a widespread phenomenon as the financial and economic crisis, there is no well-established definition. Under the crisis at all (from the Latin crisis - The turning point) is understood as a rule, sharp breakdown (without specifying parameters) in any process, wearing mostly negative (crisis definition).

However, often it emphasized that the crisis brings into our lives is not only negative, but positive in part, forcing to move forward, creating new opportunities for development while overcoming it. There is even a version according to which the word "crisis" in Chinese is written with two characters, one of which represents danger, and the second - an opportunity (Yakunin et al., 2012).

Crises accompany the development of human society throughout its history. At first they appear as crises of underproduction of agricultural products, from the middle of the XIX century - As a violation of the balance between industrial production and effective demand. If, before the XX century economic crises were limited, as a rule, outside of one, two or three countries, with the beginning of the XX century. They began to acquire a regional and then international scale. In Eurasia and America for almost two centuries, the major economic crises have occurred about 20 times (Maslov, 2009).

The global economic crisis are considered as one of the systemic threats since the XIX century (Trachtenberg, 1954).

In modern economic literature, the following types of economic crises (Table 1).

Certain aspects and areas of financial crises examined in the works of both foreign and domestic economists:

Table 1: Typology of economic crises

Type of crisis	Characteristics of the crisis
1	2
1. The crises of the real sector Including	Characterized by an imbalance between supply and demand for goods and services markets. There are crises of overproduction and underproduction (deficit)
1a. Crises of overproduction	It arises due to undiagnosed aggregate demand and the inability of production planning in a free market. At the same time the acquisition of such cyclical nature of crises and turning them into one of the phases of the economic cycle is associated with the development of the market of the industrial economy. For this reason, in modern literature category of "economic crisis" is often used with the definitions of "periodic" or "cyclical"
1b. Underproduction crises	Explained, as a rule, non-economic factors and are associated with disruption of normal economic reproduction under the influence of natural disasters and wars, military and political conflicts
2. Financial crises	Consider the events that resulted in financial assets (e.g., shares or bonds) dramatically lose a substantial part of its value in the market. Examples of financial crises are banking and currency crises, as well as "speculative bubbles" and others

- The liquidity problems of financial risk and financial stability, as well as the participation of transnational banks in crisis redistribution processes (Cawley, Sandler, Williamson).
- Questions of modeling financial crises (Bruk-Wide, Kaminnngz, Keydzhel, Knight, Roth, Schulze, Schumpeter).
- The place and role of the financial crisis to undermine economic stability and general economic crises (Ber-Nanka, Alan Greenspan, Robert Kagan and Mishkin, Charles Morris, Knight, Rosenberg, Shinazi).
- General problems of theoretical and practical aspects of financial and economic crises (Atlas, Varga, Gerashchenko, Zhukov, Krasavina, Lavrushin, Radkovskiy, Yuri Sokolov, Fetisov, Tshaholov, Tavasiev, Yampolsky et al.) (World Economic Outlook Database, 2008).

A significant contribution to the development of the methodology of the study of financial “bubbles” and crises brought the economist Kindleberger (2000).

Table 2 presents data on the duration of the global financial crises of the last century and a brief description.

Thus, the data in the Table 2 allow us to make the following conclusion: In the heart of most financial crises is the primary source - a sharp inflation and then “collapse” of the financial “bubble.” Markers of the financial crisis as the basis of imbalance of the financial system may be considered:

- Instability and depreciation of the national currency
- Inflation
- A sharp discrepancy between budget revenue it costs
- Mutual non-payments of economic entities
- Inconsistency in the money supply monetary needs.

Throughout history, the world economy has experienced periodic financial turmoil. IMF experts for the period of 1970-2008 years counted 124 systemic banking, foreign exchange, and 63 208 of debt crisis, with default on sovereign debt and affecting more than one country. They are quite extensively covered in the economic literature (Sachs et al., 1996).

Last crisis that the global financial system faced at the end of the first decade of the XXI century - one of the most serious and widespread in recent years. It is different from all the previous

as the depth and scale and, perhaps, the first time since the great depression gripped the world (Daianu and Lungu, 2008; Silnov and Tarakanov, 2015).

The whole place is now the world’s financial turmoil exceeded the most pessimistic expectations. These problems seriously affected the country’s CEA, which every year more and more drawn into the global financial and economic system, actively integrate into the global financial markets. These countries, according to the World Bank, more than any other regions affected by the crisis.

3. THE BANKING SYSTEMS OF THE CEA COUNTRIES: HISTORICAL DEVELOPMENT AND CURRENT STATE

To accelerate the formation of the banking market environment in the countries of the CEA in the early years of independence of the central (national) banks conducted fairly liberal policy. Very loyal to the requirements for minimum capital, Simplified licensing mechanism and, in general, the formal relationship to the procedural mechanism of conducting banking activities led to the creation of a fairly short period of time a large number of commercial banks, a significant proportion of which did not meet the standards of banking activities.

In the future, the process of economic development of the region and the development of international relations, national commercial banks increased requirements. Thus, the majority of them did not survive the new operating conditions and were forced to stop their activities.

The common features that can be characterized by the formation of the modern banking system of the CEA countries are as follows:

1. Lack of experience in market conditions
2. Lack of professional staff
3. Low level of the legal framework and the lack of adequate conditions of institutional infrastructure
4. Lack of foreign exchange reserves
5. The successful functioning of the “black” of the currency market
6. Total dollarization of the economy

Table 2: Characteristics of the global crisis for the period from 1797 to 2011

The period of crisis	Time crisis (years)	The area of financial losses and failures
1	2	3
1907-1908	1	Bank failures caused by the emerging new financial instruments
1929-1939	10	Global world financial and economic crisis
1937-1942	5	Panic war, World War II, the Wall Street scandals, the great depression
1973-1975	2	Appreciation (4 times) in oil prices, inflation
1987-1991	4	Dollar crisis
2001-2003	2	The dotcom bubble - the bubble economy that existed in the period from about 1995 to 2001. The climax occurred on 10 March 2000, when the NASDAQ index reached 5132.52 points during the trading and fell to 5,048.62 at the close. The bubble was formed by the take-off of shares of Internet companies (mostly American), as well as the appearance of a large number of new Internet companies and reorientation of the oldest companies in the Internet business in the late XX century
2008-2011	3	The collapse of the global banking system and the financial systems of some countries

7. Lack of systemic and sustainable relationships with international financial institutions.

Also, among the specific features of the formation of the monetary and banking system of the CEA number of countries can be distinguished:

- The impact of political and ethno-territorial conflicts in the intensity of the formation and effective functioning of the monetary and banking system.
- Uncontrolled circulation of money substitutes (coupons and checks), which had a significant negative impact on the national currency (Belarus, Uzbekistan, Georgia).
- The absence in some countries of the CEA-free internal convertibility of national currencies, which leads to the implementation of the illegal foreign exchange transactions.
- The dependence of the national currencies of hydrocarbon exports (the so-called “raw needle”) (Azerbaijan, Kazakhstan and Turkmenistan).

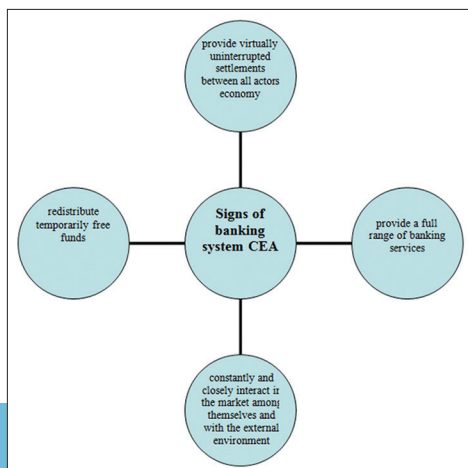
And, despite the fact that in recent years has taken active measures to the institutional reconstruction of the monetary and banking system that contributed to its strengthening and a partial reduction in the level of dollarization in the CEA, the problem is further optimization still relevant.

Two-tier banking system, which were formed in the CEA countries after they gained state independence, on formal grounds comply with generally accepted standards in the world (Figure 1).

These components form a single banking system designed to serve the national currency.

Currently, in the countries of the CEA created a unified legislation, which defines legal status, as well as the mechanism and procedure for interaction of all stakeholders of the banking system. Legislation, coordinating and governing the functioning of the banking system is concerned, central banks, commercial banks, and other entities of institutional infrastructure. mortgage law, insurance of bank deposits, currency legislation (with a view to further liberalization), new laws and regulations that mediate many economic processes are also accepted.

Figure 1: Signs of the banking systems of countries Central Eurasia



To date, the main task of the central banks of the countries are as follows:

- Ensure internal and external stability of the national currency
- Ensuring the sustainability of the exchange rate
- Maintenance of the further development of the banking and payment systems of the state
- Prevention of inflationary shocks
- Selective licensing of commercial banks
- Conducting flexible monetary and exchange rate policies.

The transformation of the banking sector in the countries of the CEA, is carried out according to national circumstances and macroeconomic realities, has led to a number of positive results (Silnov, 2016). The banking systems of most of these countries are playing an increasingly important role in the national economy: For its commercial sector is characterized by rapid development, outstripping overall economic growth; recent years have seen a significant increase in bank assets, deposits, capital lending to corporates and households.

These processes were accompanied by the improvement of the institutional framework of the banking systems of the CEA countries.

However, to date, bank CEA countries rather fragmented system, level of development, the structure and volume of operations vary significantly and still lag far behind European countries in transition, not to mention developed countries. Assets of the banking systems in the region are distributed unevenly between them and are characterized by a high concentration. In this context, the monopoly position occupied Ukraine and Kazakhstan, which accounted respectively for 44.2% and 36.2% of all banking assets CEA countries. Banks of the CEA countries consistently built up their financial capacity (Ismailov, 2009).

“The banking systems of a number of CEA countries are characterized by particularly high share of the state capital: Uzbekistan and Turkmenistan - more than 90%, in Belarus - 71.7%. A similar trend, although to a lesser extent, observed in Afghanistan. In Moldova, as in Kazakhstan, the largest banks controlled by national private capital, while in Ukraine the process proceeds very rapidly the arrival of foreign bank capital - the majority of the largest banks have been bought by multinational financial groups. In Armenia and Kyrgyzstan is dominated by foreign banks (about 50%). Armenia’s banking system remains very small - its assets are less than 20% of GDP - and one of the smallest in the CEA. In Kyrgyzstan, the shares of the leading banks in Kazakhstan acquired banks, reinforcing the integration of the banking systems of these countries and helped to accelerate their socio-economic development. Due to the lack of the financial market, banks in Tajikistan, although here in recent years on the rise, are not involved in financial transactions, their capital base is only 5% of GDP. As a result, hundreds of the largest banks of the CIS countries are represented banks only five CEA countries: 21 - Ukraine 10 - Kazakhstan 4 - Belarus and one - Uzbekistan and Azerbaijan.”

Thus, the monetary authorities of the Commonwealth countries are faced with the need to simultaneously solve at least three

problems of anti-crisis policy, largely correlated, but sometimes conflicting:

- Combating decline in production and a weakening of the stability of the banking sector by increasing liquidity in the economy and the adoption of measures to strengthen the financial and banking system.
- Overcoming the outflow of capital abroad and export promotion, including measures of exchange rate policy.
- Containment of inflation, including by means of interest rate policy.
- We can distinguish anti-crisis policy measures CEA (Table 3).

Overall banking system of the CEA countries are “fragile” or “very unstable,” having a high level of vulnerability macro-prudential indicators and low ability to withstand the effects of macro-prudential stress factors.

Now it is obvious that in the conditions of the global financial turmoil in the banking system will change significantly the CEA.

In the fierce competition among the major currencies of the world in both the domestic and foreign markets, to the monetary authorities of the CEA countries it is a difficult task - to increase security still emerging national monetary and banking systems. In modern conditions, one of the most effective and sustainable means of strengthening the national currency is the currency integration.

Analyzing the course of integration into the global financial and currency space from the perspective of the interests of the CEA, there are four major currency area. Two of them are (on the main center line “East - West”) freely usable currencies and strong local currency and in two (on the main center line of the “North - South”) - is only partially convertible currency (Demirguc-Kunt and Detragiache, 1998).

Integration processes in the CEA financial-currency area can be seen in different directions and at different stages of development. It

should be noted that the level of intra-regional currency integration is much lower than the outside. This is due, primarily, to the lack of consistency of the overall target setting country development involving economic interests and methods of achieving them, on the basis of which could consolidate integration aspirations of this group of countries, although, as noted above, this region has all the objective preconditions.

The presence of different variants of economic, financial and monetary integration of the CEA countries leads to diversify its implementation scenarios in modern conditions, each of which is self-sufficient and independent study suggests (Eichengreen and Arteta, 2000).

On the other hand, it should be noted that in the context of financial globalization and entry of individual countries in the region in the WTO their choice of the most attractive currency poles, which will be made in the basic rate of currency relations, becomes crucial.

System analysis of integration processes in the financial and currency space CEA suggests:

- First, identify the availability and feasibility of establishing a monetary union CEA states.
- Secondly, to establish the sequence, principles and forms of the region’s countries to participate in these currency resorts, located on the main center lines.
- Third, assess the advantages and disadvantages of these monetary unions to these states.

4. CONCLUSION

The fact that the crisis in varying degrees of cover selected countries and their regions, is explained by structural and institutional factors. An analysis of the crisis in some countries, and national methods of dealing with them to better understand the nature of these phenomena, their distribution mechanisms, as well as economic consequences. Of particular interest is the

Table 3: Measures anti-crisis policy of the states and their characteristics

Scope of anti-crisis measures	Type of anti-crisis measures	Characteristics of anti-crisis measures
1 1. Monetary, monetary and financial-banking	2 Measures to increase the liquidity of credit institutions Measures to strengthen the stability of the banking and financial sector Export promotion measures	3 Realized by reducing reserve requirements, increasing the availability of banks to refinancing instruments, including through the expansion of the Lombard list of central banks’ securities accepted as collateral for loans by banks; the use of new bank refinancing instruments, raising the limit on budget accommodation in bank deposits, and others Provide increased requirements for transparency and accountability of credit institutions, strengthen the supervision and control of national financial markets in order to protect investors and consumers, the prevention of financial risks associated with fraud and abuse They include carrying out in the CEA countries, either smooth, or one-time devaluation of national currencies, which both contribute to discouraging capital outflows from the region
2. The state support to prevent the bankruptcy of credit institutions	Allocation of public funding systemically important banks to support banking system	The provision of subordinated loans, the provision of financial assistance to enterprises Provision of central (national) banks the right to compensate part of the losses on the interbank market transactions as a result of lending to banks, which had a revoked license for banking operations Granting the right to specialized government agencies involved in the insurance of individuals’ deposits, provide financial assistance to investors who buy shares/stakes in the authorized capital of banks with the presence of signs of financial instability

genesis of the crisis in the integration groupings of different levels, the reaction to it of the participating countries, the capacity and effectiveness of coordinated anti-crisis policy.

Economic globalization as a modern process affects all spheres of economic life of the world community, determines the direction and intensity of the international economic relations. It calls dramatically increase the vulnerability of national economies to external shocks and require appropriate mechanisms for the adaptation of the financial system to change.

The core and most dynamic subsystem of economic globalization is financial globalization, which is a qualitatively new stage in the internationalization of the global financial market on the basis of innovative technologies. The essence of this phenomenon is to strengthen communication and integration between the financial sectors of national economies, the world's financial centers and international financial institutions, resulting in the formation of a new configuration of the global economy, the formation of its financial architecture. A visible result of these processes became more interdependence and integration of the financial systems of individual countries, which gave rise to the now-functioning global financial system.

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