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Financial Stability: Swiss National Bank's Experience

Ensuring financial system stability is the main aim of the activity, performed by European countries' national banks. The main issue in terms of the abovementioned aim implementation is providing the financial systems' perseverance to system risks as well as proper functions' realization by financial systems' structural elements.

The federal law of Switzerland on the Swiss National Bank defines the particular status and enshrines the principle of the country's central bank independence. The concept of the former one is designated so: the Swiss National Bank and its authority members while performing their tasks are allowed to accept instructions neither from the Federal Council, nor from the Federal Assembly or any other body. The aforementioned law also comprises the task of promoting the stability of the financial system, financial market infrastructure supervision. [1] So far the main aim of the Swiss National Bank's monetary policy is ensuring the price stability, taking into consideration economic changes.

The formation of modern tool of ensuring Switzerland's financial system stability occurred influenced by the experience gained in dealing with the effects of financial crises.

Let us point out the weak spots of Switzerland's financial system that appeared under the influence of the factors of the financial and economic crisis of 2008-2009:

- financial institutes Credit Suisse (Swiss International Finance Group) and UBS (Swiss Global Finance Company);
- economy's dependence on the financial sector;
- weak economic growth (insignificant production growth indicators) in the pre-crisis period;

- negative indicators of economy's state of major trade partners of the country under investigation, namely the USA, the EU that led to strengthening of the Swiss franc both to the US dollar and the euro and adversely affected the export situation in Switzerland.

The global financial and economic crisis of 2008-2009 undermined the stability of the financial system of Switzerland, made an impact on the banking system of Switzerland. One of the systemically important UBS banks (Swiss Global Finance Company) was on the verge of bankruptcy. The Swiss National Bank in association with the government developed the program with activities in order to support and minimize negative consequences aiming at avoiding the threat to the entire financial system of Switzerland.

The main measures to overcome the negative consequences of the global financial and economic crisis of 2008 were

- reduction of the discount rate;
- holding the national currency in the defined corridor – setting a minimum exchange rate threshold.

Experience of overcoming the negative consequences of the global financial and economic crisis in the country under investigation proved that there is a need to strengthen the control, regulatory and supervisory mechanisms for financial market activities.

The system of ensuring the financial stability at the Swiss National Bank is represented structurally in the following ways

- 1) singling out the financial stability department;
- 2) singling out the elements of bank system analysis within the department, systemically important banks and supervision;
- 3) the mechanism of financial stability ensuring.

The issue of promoting ensuring the financial system's stability is accomplished through the following components of the financial stability mechanism

1. Financial market analysis, its structural elements. For now the evaluation of banking sector stability is alarming in Switzerland. The peculiarity of its holding is the analysis of the stability of large banks and domestic-oriented commercial banks.

2. The supervision over national financial market's infrastructure. The peculiarity of its holding is the cooperation with the Swiss Financial Market Supervisory Authority that exercises the powers to supervise the banking legislation.

3. Changes monitoring of systemically important banks in the banking sector as a whole and separately

At the current stage the list of components taken into account by the Swiss National Bank while analyzing the financial stability involves

- domestic and global risks for the banking sector, namely the credit quality, the real estate market, the stock market;
- evaluation of the systemic large banks of Switzerland, namely Credit Suisse (Swiss International Finance Group) and UBS (Swiss Global Finance Company).

Thus, the financial sector stabilization comprises the Swiss National Bank's priority task. The main conclusions of held theoretical analysis of mechanism of ensuring the financial stability include

- nowadays financial stability depends on political stability and balanced fiscal policy;
- the banking supervision has to be strengthened and focused on the long-term perspective.

Literature:

1. Federal Law «National Bank of Switzerland» [Electronic asset] - Access mode to the asset:
https://www.webcitation.org/673sHYrIW?url=http://www.snb.ch/en/mmr/reference/snb_legal_NBG_01_01_07/source
2. Official site of the National Bank of Switzerland [Electronic asset] - Access mode to the asset: <https://www.snb.ch/>