

Development of banking competition and its impact on systemic stability in Ukraine

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On the one hand the greater competition in the banking sector has led to the greater innovation and efficiency, but on the other hand it has also led to the greater fragility. The financial crisis led to a re-examination of risk assessment practices and regulation of the financial system, with a renewed interest in systemic fragility and macro-prudential regulation.

The article considers methodological approaches to the measurement of competition in the banking market of Ukraine. In order to measure competition concentration indexes as well as H-statistic testing were used. The main tendencies of the banking competition development were defined. The concentration indexes dynamics shows that the concentration in banking industry is growing. As a result of economic and mathematical modeling the type of the banking market in Ukraine was defined as a monopolistic competition. The hypothesis H- statistic = 0

as well as H-statistic = 1 were rejected. However, H- statistic level reduced from 0,491 to 0,358 during 2007-2015, which corresponds with concentration indexes dynamics.

Relationship between the level of competition and financial systemic stability was estimated. In order to access systemic stability financial soundness indicators were used. They are: regulatory capital to risk-weighted assets, nonperforming loans to total gross loans, return on equity, liquid assets to total assets, and liquid assets to short-term liabilities. It was shown, that there is a negative relationship between the indexes of competition and systemic stability. However, it should be noticed that the relationship is negative under financial crisis conditions. The conclusion appears to be that greater competition encourages banks to take on more diversified risks, making the banking system less fragile to shocks.