

# Building of a System of Market Situation Indicators which Reflects the Development of the Interbank Market

Maryna Zelenska

The Chair of Economic Cybernetics, State Higher Educational Institution "Ukrainian Academy of Banking of The National Bank of Ukraine", UKRAINE, Sumy, Petropavlivska street 57, E-mail: marina.zelenskaya@gmail.com

**Abstract.** *Interbank market is a segment of the financial market which is involved in the transformation of financial resources and their redistribution within the banking sector. In respect to this the issues connected to the investigation of its environment are significant. We describe the interbank market environment as a situation which is influenced by supply and demand and determined by a set of indicators which reflects quantitative and qualitative changes of market instruments. This paper provides a theoretical approach to the identification of key market situation indicators which reflect the development of the interbank market and allow regulating of a market performance.*

**Keywords:** market situation, interbank market, interbank market development, interbank market environment, market situation indicators.

## I. Introduction

An investigation of any financial market in order to predict its further development is not possible without studying of its environment.

As T. Radischuk considers [1], the current market situation theory grew up from the doctrine of the economic crisis and began to develop as an independent science in the early XX century. A German socialist and philosopher Ferdinand Lassalle was one of the founders of the theory of market environment. He defined a market environment in a broad sense as a linked set of existing unknown circumstances which surround a person of a mercantile world. The Swiss economist Wilhelm Röpke opposite to him considered the market environment quite narrowly defining it as a balance of supply and demand in any market, which is largely unquantifiable, resistant to influence and constantly changing.

A significant contribution to the theory of economic environment was made by scientists John Hicks, Michał Kalecki, Paul Samuelson, Nikolai Kondratiev. Among the domestic academics who were engaged in the research of this problem A. Bilousov, D. Kostyukhin, F. Levshyn, S. Menshykov, V. Maievskiy, S. Nikitin, Yu. Yakovets and others should be mentioned.

Nowadays a great variety of definitions of the economic environment exists. For example, in the economic Encyclopedia, edited by L. Abalkin this concept is treated as a temporary economic situation, which is characterized by a number of indicators which reflects a state of the global or regional economy and commodity market in a given period. These indicators are: the dynamics of production, movements of domestic and foreign trade, inventories, prices, exchange rates, stock market quotes, gains, the degree

of utilization of production capacity, production and distribution costs, number of unemployed, wages, etc. [2]. From this definition it follows that the system of indicators plays the primary role in determining of the economic situation. This opinion is shared by scientists L. Lipych and A. Koshchii [3], who emphasize that the selection of indicators is an important step of a study of economic environment, since it affects the completeness and accuracy of displaying a current situation, analysis and forecasting.

As N. Matseliukh confirms, the analysis of the market situation provides the information required to influence a particular situation in the economy before it has been made by a competitor. The capability to make a particular prediction of the dynamics of economic factors can prevent the negative events and make it possible to benefit in future [4].

## II. Theoretical approach

In contrast to a great number of papers devoted to the interpretation of the essence of economic environment, the concepts of the environment of specific markets and their sectors are scarcely explored today. In this respect before the justification of a system of market situation indicators reflecting the development of the interbank market it is necessary to focus on the determining what interbank market environment is.

In our opinion, the interbank market environment (or it also can be known as the interbank market situation) should be defined as a situation which is influenced by supply and demand and determined by a set of indicators that reflects the quantitative and qualitative changes of the market instruments. It is a form of expression of the factors (conditions) which reflects the supply-and-demand situation, pricing and competition in the whole market as well as in its individual segments over time and identifies possible ways of its development in future.

The main features of the manifestation of the interbank market situation are the following:

- the commensurability of the market;
- the market size;
- the level of business activity;
- the level of competition;
- the level of risk.

It is obvious that at different times the same economic phenomenon can be described by different values of cumulative evidences. It means that the market environment may change. As a result, the deviations from previous measures or so called market fluctuations can be observed. Fluctuations are inherent to almost all economic processes and variables. They are the main element of economic situation, i.e. its special feature [4].

Dynamics of the interbank market situation also is defined by permanent fluctuations of its individual elements different in form and nature. These fluctuations can be classified according to the following key features:

- the size of fluctuations in market conditions;
- the stages of the market cycle;
- the duration of fluctuations.

The study of all forms of financial market fluctuations are carried out by means of the system of economic

indicators that allow, firstly, to quantify the qualitative changes which occur during the reproduction process and describe the situation in the market, and secondly, to determine the significance, directions and trends of the development of the market, that is to forecast it.

In respect to this the effective investigation of the interbank market can be made if all of its market indicators are considered in dynamics.

Using specific indicators should bear in mind that some of them gives a direct quantitative assessment of the prevailing market situation and directly reflects particular environmental changes, whereas the status and movement of the others may be used as an indirect evidence of the processes and trends that are observed in the market.

The system of indicators of the market situation should contain data which accurately and operationally reflects major changes, directions and pace of development of the reproduction process and is influenced by chance as few as possible.

A special feature of all market situation indicators is that they change when the market economy is passing from one phase of the cycle to another. Thus, when studying changes in market conditions during the performance cycle, it is necessary not only to evaluate changes that have taken place, but also to draw conclusions about the probability of changes in future.

Thus, to make a successful analysis of the interbank market situation it is necessary to create a system of performance indicators, which allows to assess not only the current and past market conditions, but also to make assumptions about its further development. The dynamics of these indicators should be investigated under the influence of the factors of micro- and macroenvironment, and research results should be presented in correlation with economic processes.

In view of the above, the aggregate values of current market prices and transaction volumes which reflect the market conditions in terms of its particular species and market segments will be considered as the indicators of the interbank market situation (Fig. 1).

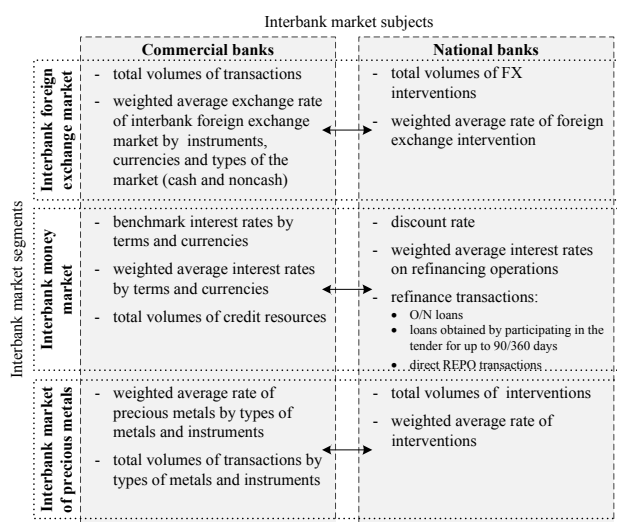


Fig. 1 A system of market situation indicators of the interbank market development by subjects and segments of the market.

Depending on the goals of the analysis and features of the indicators of the market situation can be represented in absolute and relative terms.

It is ought to note that prices play the major role in the market situation study. Firstly, this can be explained by that the prices are accumulating indicator of market conditions. They reflect the movement of many other indicators which define the development of the market environment. Secondly, as it is a key indicator the investigation of the others is ancillary.

The price as a market category on the one hand reflects market conditions and on the other hand appears as an instrument of market regulations which influences on supply and demand, market structure and capacity [6].

## Conclusions

The analysis of the system of market situation indicators of interbank market development will allow:

- to assess the current market situation;
- to identify changes of the individual stages of the market cycle for the market instruments;
- to identify unpredictable factors which provoke adverse changes in the market;
- to detect the influence of seasonal and other factors on the future state of the market;
- to prevent negative effects on the domestic interbank market related to changes in global markets.

But, as we believe, the main task of the analysis is the implementation of a systems approach with elements of modeling to the regulation of the interbank market.

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