

*Katakli S.**

BASIC TENDENCIES OF DEVELOPMENT OF BANK BUSINESS IN UKRAINE IN POST-CRISIS SITUATION

Resume *Relevance of research theme. The research objective consists in revealing of the basic weaknesses of bank sector of Ukraine, which steels advancing factors of financial crisis, the events, made direct impact on development of bank sector of Ukraine during the last few years, and also revealing of prospects of development of bank business in post-crisis conditions.*

Methods of research. During theme studying the following methods have been applied: methods of the economic and economic-statistical analysis for an estimation of a current state bank activity of Ukraine, competitiveness of represented services and tendencies of their development; at definition of key problems of the market of banking services - methods of expert appraisals; by consideration of a current state and development trends of bank business - analysis and synthesis methods.

Keywords: bank sector, credit activity, active operations of banks, a monetary policy, capitalization of banking system.

Аннотация *Мета дослідження полягає у виявленні основних слабких сторін банківського сектора України, які стали визначальними факторами фінансової кризи, подій, мали безпосередній вплив на розвиток банківського сектору України в даний період, А також виявлення перспектив розвитку банківського бізнесу в посткризових умовах. При дослідженні теми були використані методи економічного і економіко-статистичного аналізу для оцінки поточної діяльності державного банку України, Конкурентоспроможності послуг, що надаються і тенденцій їх розвитку; при визначенні ключових проблем на ринку банківських послуг - методи експертиз; при розгляді поточного стану та тенденції розвитку банківського бізнесу - методів аналізу і синтезу.*

Ключеві слова: банківський сектор, кредитна активність, активні операції банків, грошово-кредитна політика, капіталізації банківської системи.

Today all over the world is a significant transformation of the international activities of banks in the direction of the requirements of a globalizing world economy. This finds expression in a concentration of banking capital, including through utilization of the mergers and acquisitions, international expansion of banks' business, diversification of product range, including the expansion of non-bank banks offer products and services.

Last years were characterised by unprecedented development of bank sector of Ukraine: rapid growth of consumer crediting, inflow of direct foreign investments, the beginning of the period of consolidation of industry. During the period from 2004 to 2007, the volume of a portfolio of various credits has grown more than 10 times as much in absolute indicators, doubling

* 5th year student of the Department International Economic Relations of Taurida National V.I. Vernadsky University

annually. Thus, rates of increase of credits exceeded indicators of deposits that had led to the increased risks of refinancing and liquidity, and to currency risk, as result of essential loans in the international markets of the capital.

At the same time, quality of incomes of Ukrainian banks remains in a very low level: in a retail segment it is 1.7 bank products per client of a bank, and in a corporate segment – basic products with low profit prevail, and, correspondingly, excessive dependence on risky percentage of interest incomes. Moreover, the inefficient infrastructure, processes, and technologies of banks give a large quantity of possibilities for reducing expenses and improvement of an indicator of costs-profits ratio of banks.

The Ukrainian banking sector is continuously growing foreign competition: every tenth bank has foreign members, including more than 18 banks are fully controlled by western parent companies. Today, banks with foreign participation have higher return on assets and capital and, accordingly, can offer substantially better terms of credit, both businesses and individuals.

Pursued in recent years the policy of financial security is largely aimed at consolidating the Ukrainian banking system through its enlargement. This policy is enforced, because to compete with such global giants as Citicorp, Credit Swiss Group, UBC Warburg, Lloyds, HSBC Holdings, Deutsche Bank Ukrainian banks are not yet able. In this regard, a need "to take measures to create a stable banking system that meets the interests of the real economy."

Different aspects of the formation of the theoretical foundations of research in international banking in Ukraine, as well as its development focus on the work of such economists as Bogdanov AA., Bogomolov, OT, SM Borisov, AS Bulatov, Vidyapin VI, Gracheva, MV, Gusakova NP, Ershov, MV, Zhuravleva GP, Kuznetsova IP, Lomakin, VK, Movsesian AG, Ognivtseva SB, Terekhov AA, Fanenko MP, Khalevinski ED, Handrueva AA, Scherbanovoy H . N. etc. Among the works of foreign authors, the problems affecting the international activities of banks, it should be noted works of N. Birdsall, D. Blackwell, J. Dyer, D. Kidwell, PA Cayley, A. Lajoux, G. Molla, M. Monti, R. Peterson, S. Reed, J. Cinca, A. Smith, J. Foster, B. Fulcheri, A. Hall, F. Evans, and others.

The main trend of the global economy this is the rapid development of global financial markets and the emergence of new financial instruments, which, in turn, affect the dynamic development of the banking. Banking is now a highly dynamic activity, which absorbs in itself all the latest technology of international financial transactions and is constantly in the center of media attention as a result of the functioning of foreign exchange, currency and stock markets. The main feature of the banking business is growing number of services that they provide international banks. Foreign trade company could not expand their activities without the timely flow of money and other resources offered by international banks. Banks not only ease traffic flows of existing corporate resources, and promotes credit financing for local and international markets.

International banking - the system of methods and approaches to the organization and management of banking operations, which are carried out in the international economic and legal environment. It is the management of international banking transactions. Banks that carry out international operations are its subjects.

International Banking unfolds in two main ways: through banking offices opened in foreign countries, and without the direct presence of the bank in a foreign country (Fig.1).

The objective basis of international banking is an international movement of capital, which plays an important role.

Banking activities are considered, especially as all kinds of activities which, in accordance with the mandatory requirements of direct legislation and regulations is possible only after the registration of a credit institution and obtaining a permit (license).

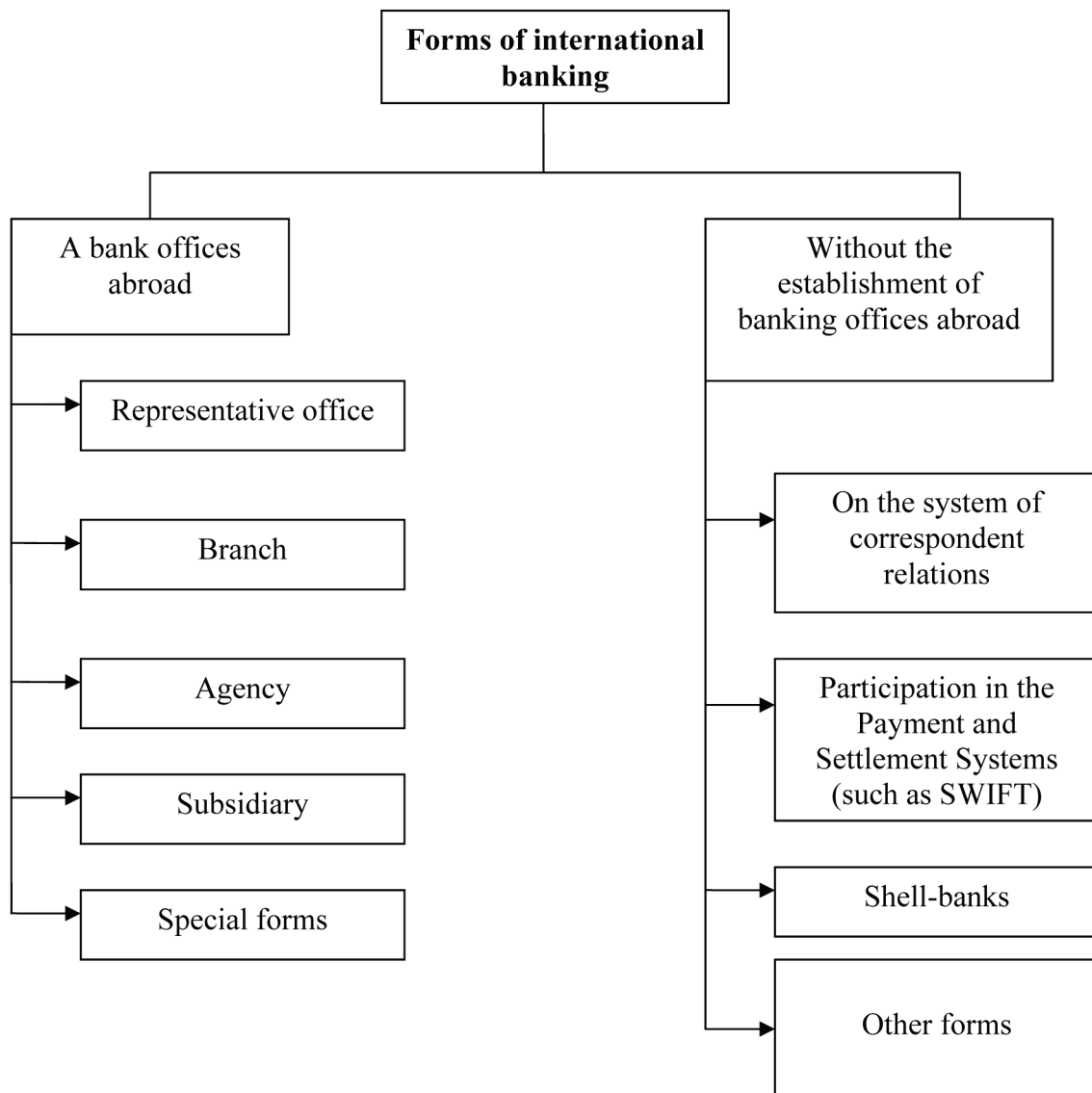


Fig.1. Organizational and legal form of international banking

Systemic insights and international banking activities can be considered as development and concretization of dialectics in relation to the study of international economic problems, a necessary component, along with economic analysis, modern methodology of economic science. This methodological approach is applicable to the study of all international banking activity.

Modern globalization of the world economy is expressed in the following processes that affect the international activities of banks (Fig.2):

The deepening of the internationalization of capital is the growing international movement of capital between countries, primarily in the form of direct investment, internationalization of stock market.

At that time, both individually banking crisis has its own dynamics, we can always identify the main common elements of the crisis. Based on the most common reasons that banking crises can be classified into two categories: Micro (or "bad" banking business) and macroeconomic (or worsened ("bad") business environment).

Banking crises are often result from improper conduct banking business: Ill-conceived and reckless lending policies, excessive risk taking, poor organizational management, inadequate

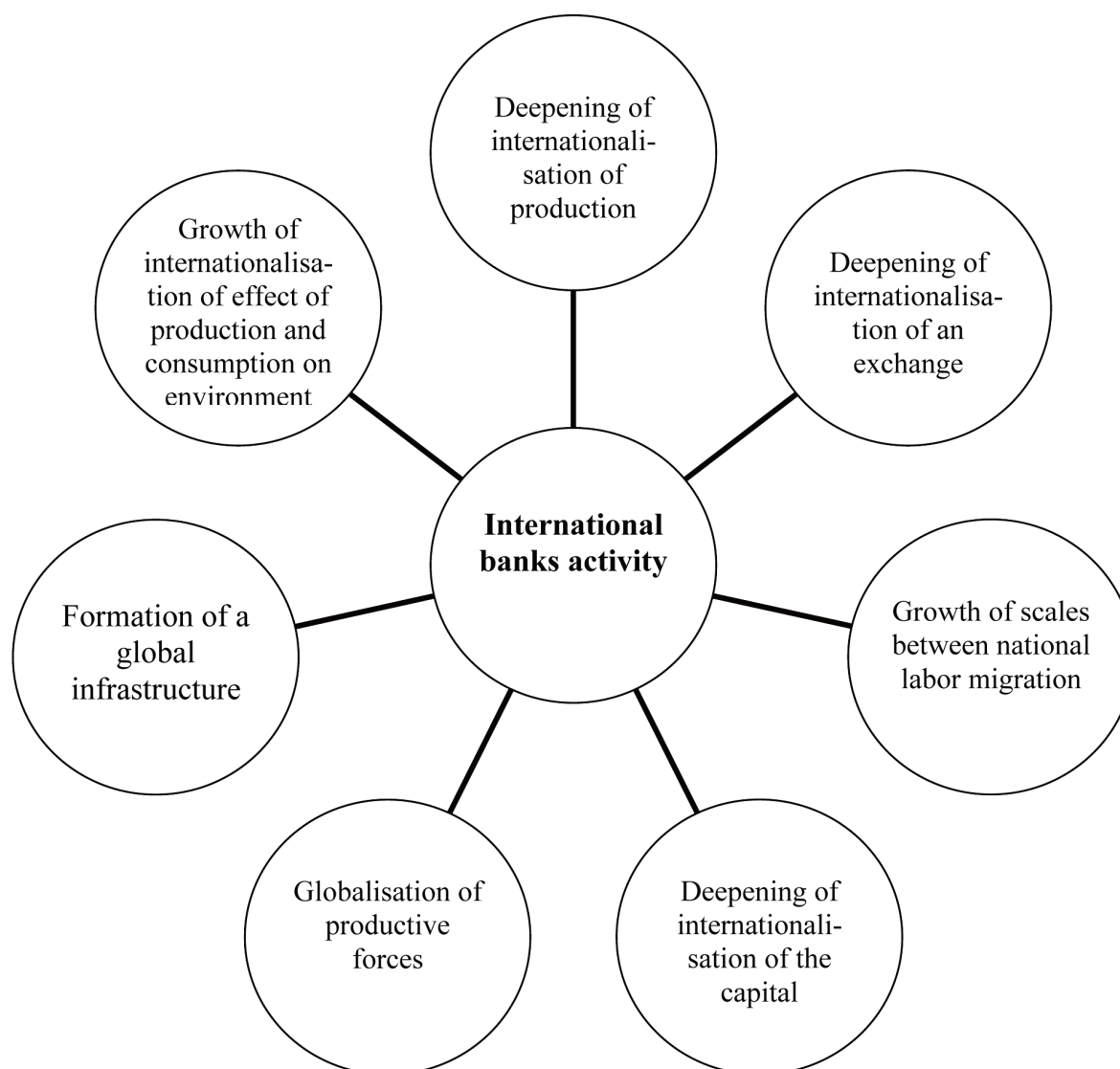


Fig.2. Influence of conditions and factors of globalization of the world economy to international banking activities internal controls, the emphasis on increasing market share of the organization, rather than on profitability as well as failures in monetary policy and the mismatch of requirements and obligations under the terms of banks themselves or by their borrowers. These factors are compounded if the bank's shareholders do not have something significant at stake in the banks - that is, without sufficient investment funds in banks and, if bank managers have little personal responsibility for the risks they take.

In some developing countries these conditions could be much worse if the power is concentrated in the bank in one hand, and when banks serve as personal "money boxes" or pyramid schemes and industrial groups, or clans. In these circumstances, lending "their" customers, transactions on the basis of insider information confidential and frank fraud may go unpunished. Similarly, state banks can be used as quasi-financial agencies, whose activities are based primarily on political criteria rather than on commercial principles that threaten their financial stability and definitely can affect the atmosphere in other banks with higher levels of management.

The "bad" banking can only receive additional incentives in the absence of reasonable legislative and control framework, as well as the appropriate market discipline.

Weak control over the activities of financial institutions may be expressed as follows: Politics concentrated lending, thoughtless drafting loan or investment portfolios, inadequate credit evaluation, which leads to an overestimation of the profits of the bank and its capital, mismanagement, etc.. Also, control of banking activities may face a lack of management, as well as lack of qualified personnel who may be insufficiently motivated (in material terms, inclusive).

Insufficient transparency and financial reporting, the low level of accounting and auditing means that the market - ie creditors of the bank - will not have sufficient information in order to establish discipline among the owners of the bank.

Market forces are facing problems associated with the imperfection of the basic principles of work with troubled banks. These include the weakness of the legislative, legal and institutional frameworks of interaction with banks and companies, which are on the verge of bankruptcy. The expectation that investors and lenders come to help, could reverse any reformist policies.

Crises can be caused by macroeconomic factors, which actually have nothing to do with the banking system. Even highly complex banking systems, which operate under strict and effective legislation could be affected by volatile macroeconomic conditions, or referring to ill-conceived economic policies of the state. Macro-economic difficulties may be associated with the following points: Credit boom, which to some extent caused by too large for the volume of investments or changes in tax legislation, the rapid development of a so-called. "Bubbles" in real estate and / or securities, which then cease to exist; economic slowdown and / or decrease in export or loss of export markets, excess capacity / profitability decline in the real economy, reducing the total investment, the growth of budget deficits and / or current-account deficit, reducing public debt servicing capacity, sharp changes in currency exchange rates and interest rates, etc.. Not all of these factors are controlled by governments, but national leaders must be willing to adopt macroeconomic policies that would take into account the weakness of the banking system of a particular state.

As long as banks remain liquid, the violation of the banking sector may continue for some time, until a number of triggers not make depositors and creditors completely disappointed in the banking system. This can be market-based, strategic and policy "shocks" that are "awakens" the signal to address the problems that have so far been ignored, leading to significant changes in expectations and management system banks.

The emergence of a situation of illiquidity in one bank may rapidly spread to other financial institutions as well as the unstable situation of the bank or payment system negatively affects the credibility of all banks, and leads to the fact that the lender or investor seeking to get their money back even though a stable position, for example, private banks. In this case, the "disease" has a local character, however, may also spread beyond the state, ie take the form of the problem of international concern. This can happen in the case where the emergence of a systemic crisis in the country occurred in the financial and trade channels.

Premature financial liberalization, together with inadequate training of bankers and regulatory authorities also led to the emergence of banking crises. Bankers may not have the necessary skills to manage price risk, and supervisors - the resources and rights to monitor the more complex new types of risk.

Loss of confidence in the government and its ability to conduct macroeconomic changes can cause a systemic crisis. This concern can violate the trust in the banking sector and the domestic currency.

However, the most important issue in the occurrence of banking crises is that knowledge of the specific reasons for their occurrence is not enough. The main thing - is the ability of authorities to jointly develop a strategy and then apply it.

Politicians must understand that there is a problem that requires quick and decisive action. Develop a political consensus is an important step. This process should be open and honest. The owners of banks and borrowers must be protected from authoritarian intervention by government authorities.

For the Ukrainian banks, the leading search tools and information necessary to improve reliability and efficiency of its international activities important to the development of these two types of global marketing, with all the attached standard set of banking services:

- manufacturing (industrial) marketing, involving the development of modern Ukrainian banks lending to industries and other industries. Among them are of particular importance: Project financing, leasing and factoring, bank involvement in the formation and activities of TNB and financial-industrial groups;

- international marketing, aimed at developing international nature of banking operations. This trend, primarily realized through powerful branch networks throughout the world and adopting new information technologies, which enables to perform operations on an international scale. We should also mention the role of international marketing in the development of foreign economic relations: TNB are not only creditors, foreign trade, but also direct them to the participants by introducing a mechanism of factoring, forfeiting, leasing, franchising and others;

The advantage of the marketing strategy of differentiation of banking services is that it gives the cross-border bank leverage pricing. Another strategy is the strategy of market segmentation in the implementation of which the market is divided into segments, and the bank should determine the most profitable of them. Both of these marketing strategies sufficiently profitable, effective, apparently, they must be applied in conjunction. In addition, the strategies it is important to determine the impact of new services on the risk for the banking activity in general.

Major trends in the development of the banking system of Ukraine for the last time period associated with efforts to maintain the liquidity of the banking system, minimizing the negative impact of financial crisis, the normalization of relations between banks and their customers, which have been substantially eroded due to financial problems of banks.

To implement these measures had been adopted several legislative acts, in particular:

- 1) Resolution of the Board of the National Bank of Ukraine "On additional measures concerning the activities of banks" № 319 of 11 October 2008 (repealed Dec. 4, 2008);

- 2) Law of Ukraine "On Priority Measures that prevent the negative impact of financial crisis and on Amending Certain Legislative Acts of Ukraine" № 639-VI on October 13, 2008;

- 3) The Cabinet of Ministers of Ukraine "On approval of the state's participation in the capitalization of banks" № 960 on November 4, 2008 (Order redrafted in accordance with the Resolution of Cabinet of Ministers № 148 of 18 February 2009);

- 4) Decision National Bank of Ukraine "On approval of the Special-order measures for the financial health of banks" № 405 of December 1, 2008;

- 5) Resolution of the National Bank of Ukraine "On Certain Issues of banks" № 413 of December 4, 2008;

- 6) Law of Ukraine "On Amendments to Some Legislatives acts of Ukraine concerning the prohibition on banks to change the terms of the contract of bank deposit and loan agreement unilaterally" № 661-VI on December 12, 2008.

- 7) Resolution of the National Bank of Ukraine "On Introduction of the National Bank of Ukraine currency auctions" № 469 of December 29, 2008;

- 8) The Joint Resolution of the Cabinet of Ministers of Ukraine and National Bank of Ukraine "On the order of the refinancing of banks during the financial crisis" № 44 dated January 29, 2009 (repealed Decree of CMU and NBU № 238 of March 11, 2009);

9) The Joint Resolution of the Cabinet of Ministers of Ukraine and National bank of Ukraine “On the maintenance of liquidity of banks” № 238 on March 11, 2009.

The above legislation was taken as the origin of specific problems in the banking sector due to financial crisis.

So, with the beginning of the financial crisis has considerably increased the outflow of money from banks in connection with the recovery of depositors their deposits. This was accompanied by the presence of the Civil Code of Ukraine norms, which gives the investor the right to demand return of the deposit before the expiry of the deposit.

To reduce the outflow of funds from banks using the NBU has already proven in 2004, way - adopted Resolution № 319, which allows the bank not to return deposits to investors before the end of the contract.

Since the restriction of the rights of depositors, enshrined in law, the NBU is illegal, December 4, the NBU adopted Resolution № 413, which changed its restriction on the recommendations of the banks to adopt measures to attract deposits. Banks began to offer investors more favorable conditions for short-term deposits at 1-3 month, raising interest rates, and after a while began reporting an increasing number of investors willing to sign short-term deposit contract.

Experiencing difficulties with the outflow of funds, on the one hand, and difficulties in attracting low-cost loans from foreign and international financial institutions - on the other hand, banks have been massively raise interest rates on loans already granted them, motivating this behavior of rising credit to themselves. These actions put the banks in the plight of borrowers who have no clear and unambiguous mechanism for the protection of their rights.

To remedy this situation, the Verkhovna Rada of Ukraine adopted the Law № 661-VI, which complemented the Civil Code of Ukraine regulations establishing that the rate of interest adopted by the loan agreement can not be increased by the bank to unilaterally. The law also introduced a rule on what the condition of a loan agreement on the right bank to change interest rate unilaterally void.

One of the most serious problems faced by borrowers of banks with loans in foreign currency, has been the rapid devaluation of the hryvnia. To address this Decree № 469 of the National Bank of 29 December 2008 were entered currency auctions to sell foreign currency to banks to meet the demand of individuals borrowing for foreign currency for the repayment.

For the purchase of foreign currency bank should establish the registry credit agreements. The registry includes information on loan agreements concluded before 15 October 2008. This information is entered into the registry in consultation with the client-borrower.

Bought this way the currency must be used within five days only to fulfill the obligations of borrowers under the loan agreements entered in the register.

Selling currency bought at auction should be the bank at a rate not in excess of the auction rate of 0,2% of the purchase.

In order to support the liquidity of the banking system and develop the order of state involvement in this process were adopted by the Law № 639-VI, Decree of the Cabinet of Ministers № 960 Resolution of NBU № 405.

Law № 639-VI envisaged the establishment of the Stabilization Fund due to exceptional income from the privatization of state property in 2008 and receipt of such funds in full in 2009, as well as through targeted placement of government securities.

Stabilization Fund should be used, inter alia, the provision of loans to repay, refinance loans received by Ukrainian banks by foreign creditors until September 15, 2008, to provide financial assistance to banks, as well as for other purposes.

To speed up the banks' capitalization Law № 639-VI have been simplified procedures and reduced time to take appropriate action.

Thus, the deadline for receipt of approval of the Antimonopoly Committee of Ukraine on the concentration in the banking sector was reduced to five working days. In the implementation of measures to improve the financial condition of the bank decide on changes in bank charter, changing the size of its share capital may be appealed to in court only for one month from the date of their adoption.

According to international experts, principal causes of vulnerability of the Ukrainian economy are the following:

1) Heavy deficit of account of current operations:

- In 2009 is expected to increase the current account deficit to \$ 24 billion, representing 10% of projected GDP. Such volumes will require external funding.
- About \$ 10 billion. of the current account deficit is likely due to increases in prices of imported gas

One of the most frequently used indicators of investors, credit default risk of bonds is the premium for credit default swaps (CDS). CDS - is a contract, such insurance, which provides for compensation of losses on bonds in case of default by the issuer of its obligations. The buyer pays the CDS insurance premiums in exchange for compensation of damages in case of default. CDS Market was established in 1994 and today it is estimated at \$ 45 trillion. Studies have shown that CDS premiums determine the risk of default before bond ratings and spreads: it is the best harbinger of defaults, and accordingly, the impending risk.

Award CDS on five-year bonds issued by governments of developing countries at the moment is in the range from 50 to 200 basis points per year.

- If the premium exceeds 500 basis points, this indicates that investors expect a default of such bonds. As a result of issuing new bonds difficult to sell or upgrade an existing debt.
- A few days before the collapse of banks Bear Stearns and Lehman Brothers CDS premiums they reached 740 and 724 basis points, respectively.

2) Burden of external debt (for last three years the total external debt has grown up to 45 % a year and has reached \$100 billion).

- The external debt of a private sector has grown up to \$85 billion of which \$29 billion makes a short-term debt (classified on initial term of repayment)

- Over the past two years, the total external debt grew by 45% annually and reached \$ 100 billion

- At present, the external debt of Ukraine exceeds the average for countries in a similar credit-rating category:

- at 60% of GDP, the ratio of external debt to GDP in Ukraine is above the average of 40% for countries with a similar rating.

- at 120% of revenues for the current account, the ratio of external debt to current account receipts in the Ukraine are also above the average of 84% for countries with similar ratings.

3) Weakness of bank sector as the defining factor implies: high rates of growth of crediting have led to a high level of problem assets; credit growth contributed to essential increase in monetary aggregate at the level of 44 % a year, and an external debt as well; necessity to discharge great short-term debt, high deficiency of the account of current operations, fast growth of consumer crediting and big commitments of banks in foreign currency.

A number of studies of emerging markets has shown that the high rate of credit growth led to high levels of problem assets. The rate of growth of bank lending in Ukraine have been high over the past 5 years: 60% per year. Vulnerability of Ukraine due to the necessity of repayment

of a large short-term debt, high current account deficits, Rapid growth of consumer lending and large banks' liabilities in foreign currency. These risks are reflected in higher premiums on CDS in Ukraine from 250 to 600 basis points since mid-2007 - more than in other countries. In addition, inflows of portfolio capital in Ukraine dropped from I8 \$ 3.3 billion. in the first half of 2007 to \$ 350 million in the corresponding period in 2008. Partly as a result of the PFTS index has dropped by 65% YTD (as at September 19, 2008), that is one of the strongest falls in world. These risks do not mean that the crisis is bound to happen, but merely indicative of its high probability.

The first quarter of 2009 became as a crucial period – the beginning of intensive recession after rapid growth. It was characterised by panic moods in the market after deterioration of solvency of banks, and also devaluation of national currency.

This period was characterized by intensive withdrawal of resources from bank system that led to substantial decrease in credit activity, mass refinancing of banking establishments of the NBU, a panic in the financial market bringing operative intervention of a regulator in the activities of banking establishments, toughening of the bank legislation by National bank of Ukraine to stabilize situation the financial market.

The bank system has experienced the scale crisis in corpora. Persistent negative tendencies and low business activity in economy led to further reduction of liquidity of bank system, losses of some banks due to formation of reserves to cover possible losses on active operations and strengthen intervention of a regulator into the activities of banks (including the activities, at global and operative level).

Later, the following tendencies of the development of bank sector of Ukraine and the changes connected with it were observed:

- 1) maintenance of rigid monetary (currency and monetary and credit) policy of the NBU;
- 2) accumulation of free liquidity that has led to essential depreciation of resources in the interbank market;
- 3) low credit activity of banks and scale re-structuring of already given out credits to the population and the enterprises;
- 4) considerable volume of assignments to reserves to cover possible losses on active operations of banks (despite liberalization of requirements according to solvency of borrowers for the purpose of formation of reserves) that caused unprofitable, loss-making activity of some banking establishments;
- 5) support of affiliated divisions in Ukraine by foreign bank groups at is minimum-necessary level and complete recapitalization of separate banks the state. The latter was a conditionally positive moment as had not helped to restore financial institutions to the full extent (especially after defaults of state Ukrgazbank and Rodovidbank under bonds);
- 6) increase in the number of cases of NBU operative intervention into the activity of banks and the beginning of liquidation of separate small banking establishments.

Only by the end of 2009 first signs of stabilization of bank system alongside with preservation of essential risks began to be observed. It is, first of all, connected with the fact that NBU and other state structures took a number of measures concerning the bank system to influence on stability of the financial market.

It is possible to allocate the following basic events which have made essential impact on a current condition and prospect of development of bank system of Ukraine:

First, a change of requirements to the structure and adequacy of regulatory capital that, in its turn, enables proprietors to hedge partially currency risks of investments and to support the interest of foreign banking capital in further development of affiliated divisions in Ukraine.

However there are also negative aspects of such actions: essential easing of requirements to capitalization of banks that can be negatively reflected in their solvency in future.

Second, change of the legislation for the purpose of protection of borrowers – physical Persons (coming into force since November of the law of Ukraine of 6/23/2009 № 1533-VI «On Modification of Some Laws of Ukraine Overcome Negative Consequences of Financial Crisis»). It can affect the quality of bank actives at the expense of increase in volume of non-payments under credits negatively.

Third, attempts of some domestic banks to restructure the obligation to external creditors; in case of successful re-structuring it can improve short-term liquidity of such banks.

Fourth, relative stabilization of resource base and maintenance of comprehensible level of the saved up liquidity that in turn can promote renewal of credit activity of bank system both in the country and behind its limits.

Hence, from all aforesaid, it is possible to draw to the conclusions that for last year the bank system passed some stages of development, and the general financial condition of banks has considerably worsened. Nevertheless, during this period banks and supervising bodies undertook a number of actions. The most important of them were: toughening credit policy, increase of reservation, changes in the bank legislation to reduce susceptibility of financial sector to currency and credit risks. At the same time, risks of a bank segment remain considerable, due to low level of trust to banking establishments, weak regulatory and an operational environment, and an unstable situation in the country as well.

Maintaining a stimulating monetary policy in the developed countries (the majority of the Central Banks have saved discount rates at former low level) and emergence of "crisis immunity" at international investors promotes returning of the capital to emerging markets, and can be positively reflected in trunk-call items of domestic banks with foreign creditors (including potential ones).

Probably, a large part of the banking businesses which are now in the course of re-structuring of the foreign debt will reach positive result or will settle up with creditors at the expense of refunding of external loans of NBU and/or the international financial organizations.

Preservation of uncertainty in the currency-course policy is an additional risk factor for the bank assets, an essential part of which is nominated in foreign currency, and can also be negatively reflected in solvency of separate financial centers.

In view of certain indulgences of capital requirements for banks, "Credit-Reitin" does not expect significant complete capitalization of banking system; therefore, adequacy of the capital of the majority of banks will be supported at minimum necessary level. At the same time, despite significant volume of the generated reserves, volume of writing off problem credits, it can essentially decrease the demand of banks for the capital to resume business activity in the credit and share markets.

Literature

1. “Банковский сектор Украины: главные тенденции I-го полугодия 2008 года” – Украинский Кредитно-Банковский Союз
2. Вісник Національного банку України. – 2008. – №7.
3. Закон Украины о банках и банковской деятельности (от 07.12.2000 № 2121-III) <http://www.zakon.rada.gov.ua/cgi-bin/laws/main>
4. Линников А.С. “Некоторые аспекты правового регулирования банковской деятельности в Европейском Союзе”, info@eulaw.edu.ru

5. Международный банковский бизнес: Макогон, Ю. В., Булатова, Е. В. Учебное пособие: Рекомендовано Министерством образования и науки Украины /Ю. В. Макогон, Е. В. Булатова; Министерство образования и науки Украины. Киев: Атика, 2006. - 208 с.
6. [http:// www.bank.gov.ua](http://www.bank.gov.ua), сентябрь 2009
7. Катакли С.А. Влияние процессов глобализации на развитие международной банковской деятельности // Культура народов Причерноморья – Симферополь, 2009