Batrimenko Valerii*

MICROFINANCE REGULATION INTENSIFICATION OF TRANSNATIONAL BANKS IN EMS AS THE DETERMINANT OF SYSTEM CRISIS RECOVERY

The article is devoted to research of macrofinancial mechanisms of national economy's regulation in conditions of overcoming the system crisis. In this work the theoretical and practical aspects of improving cooperation between state and interstate movement of transnational regulation of bank capital in emerging market economies are analysed.

Keywords: transnational banks; international banking; macrofinancial regulation; system of interaction with the international banking business, global financial crisis, the penetration of foreign banking capital; countries with Emerging Market Systems.

Стаття присвячена дослідженню механізмів макрофінансового регулювання національної економіки в умовах виходу з системної кризи. В роботі проаналізовані теоретичні та практичні аспекти удосконалення системи взаємодії державного та міждержавного регулювання руху транснаціонального банківського капіталу у нових ринкових економіках.

Ключові слова: транснаціональні банки; міжнародна банківська діяльність; макрофінансове регулювання; система взаємодії з міжнародним банківським бізнесом; світова фінансова криза; проникнення іноземного банківського капіталу; країни з ринками, що формуються.

The global economic crisis has caused profound changes in international markets of bank services and capital, and also had important consequences for the structure of both the global currency-financial system and the local financial markets. One of the leading tendencies of modern international economic relations consists in profound transformation of macrofinancial regulation in field of cooperation between national-economic systems with transnational banks, caused by radical influence of globalization of financial capital.

Globalization of the world's financial resources has led to the reduction of the influence of national governments in emerging market economies on national finances. Simultaneously, the influence of transnational banks, international institutional investors and international speculators on national financial markets is amplifying. In globalization the condition of national finances is increasingly dependent on the behavior of residents who actively show their presence on the national financial markets, the condition of financial markets in other countries and regions, as well as from the variability of conjuncture in international financial centers.

* PhD, Associate professor. Institute of International Relations, National Taras Shevchenko University.of Kyiv

The negative consequences of these processes were particularly evident during the global financial instability of 2007-2009. As a result billions, accumulated in several global speculative funds, giving in to panic about the loss of assets were transferred instantly from one currency to another with only one computer keyboard pressing, demonstrating in such a way the ability to destabilize the monetary system of any country. Moreover, the implementation of new information systems and banking technologies led to an increased financial capital's ability to move quickly. The urgent need to intensify the macrofinancial regulation in field of the cooperation with transnational banking capital in emerging market economies as a factor of overcoming the system crisis has especially sharply risen after the series of regional monetary and financial collapses.

Theoretical concepts of methodological and institutional aspects of economic development macrofinancial programming in conditions of the banking business internationalization conducted in the work of such scientists as P.Allen, I.Ansoff, B.Buchwald, E.Barucci, J.Bhagwati, S.Claessens, A.Greenspan, R.Levine and others.

Among the famous scientists who have made their contribution into the development of methods and practice of interaction with transnational banking capital in emerging market economies, it is necessary to note the researches by T.Ash, F.Di Mauro, V.Dinger, D.Dwor Frecaut, K.Forster, A.Hawser, J.Keay, K.Pawar, J.Riedel and others..

Global calls of the financial crisis are basically reduced to consideration of several issues about which mechanisms should be applied to mitigate its negative effects on the development of the global financial services industry. Also, the problematic of future world banking sector s, which in post-crisis period must acquire new features and get a qualitatively new socio-economic content, requires essential scientific reflection.

It should be noted that the collapse of one of the largest transnational banks Lehman Brothers became a disaster not only for the global financial sector, but for the entire global economy. Despite such measures as government guarantees of schemes, some reduction in the use of indirect monetary policy introduced by national governments of industrialized countries suffered to rescue financial institutions, the future of many large banks remains uncertain. After all, the most visible results in the stabilization of global financial system, as well as enhancing investor in international financial markets, has been achieved through direct government intervention.

The financial markets continue to struggle with opaque capital structure, which often exceed the reasonable limits of adequacy of banks' balance sheets. Along with writing off inactive (hopeless) of assets, reducing their balance sheets as banks try to keep regulators proposed capital adequacy levels, although mobilize new financial resources at the present stage is extremely difficult. The current world financial market looks desolate, because it lost tens of trillions of dollars in the period 2007-2009 [10, p. 41].

Despite the use of all tools of action by governments of different countries for rehabilitation of national financial systems, there is still an acute problem of availability of sufficient sources of private capital that would balance the economic performance of large multinational banks. First, banking circles emphasize that at the present stage of development of world economy there is no holistic "financial landscape", and left only "financial ruin". International banking is in the situation, the dominant component of which is that some big financial institutions continue to struggle for survival, and their shares are traded at a price, which ranges from 60 to 70% of their real value [1].

In these conditions, especially great significance is increasing regulatory and supervisory role of the state as at the macro level and intergovernmental cooperation on megalevel of world economy. Before the country is first priority to minimize aggressive expansion functions of international financial capital, deep transformation in regulatory policy are expected at the global level. A number of bank control could not predict the time and assume that the size of some banks become so wide that a country simply will not be able to save them. For example, even in the UK and Swiss government circles were shocked by what some of the capitalization of financial institutions is greater than the amount of economic potential.

Regulatory authorities of many countries also failed to detect those difficulties which arise in the functioning of the structures with cross-border assets. However, the impact of international regulatory rules and regulations can be effective only if the authoritative intergovernmental supervisory body, which is in crisis can become a lender of last resort. Before the heads of central banks of different countries at the present stage there is the most important issue of forming a new global economic regulatory institution that should be provided with adequate powers and resources to prevent global shocks of 2008 in the future. It should be the main task of the International Institute will be the formation of new rules to control the level of risk that multinational banks are building portfolios of active operations [7, p. 650].

Introducing a series of regulatory measures to normalize the situation in the financial services industry in late 2009, such as stabilization packages for large banks, changes in monetary policy but also on financial incentives had some positive results. In particular, thanks to central bank intervention gradually decreased liquidity shortage, there has been renewal of various financing instruments, began trading on the bond market to cover. However, high levels of bad loans (non-performing loans - NPL), unsecured assets and credit losses banking groups in a purely quantitative assessment gives reason to consider the need for nationalization of some structures.

Therefore, the most effective means at the present stage of withdrawal from systemic crisis was massive recapitalization of banks with the mandatory state participation. In addition, banks will be quite difficult in the coming years to mobilize new capital to offset current and future losses without government assistance. Thus, large Western European banks during the crisis period of 2008-2009 could reach $ 175 billion, of which 62% - with the issue of new shares and about 57% of concentrated capital was provided by national governments [11].

However, the wave of nationalization that swept the global financial sector, financial institutions complicates the task of mobilizing capital for investors as the situation in this case remains uncertain and obscure. Banks initially go to market places to raise cheaper capital through issue of hybrid shares. But the closure of markets for hybrid instruments financial institutions were forced to produce more expensive preferred stock, and that until the market is not closed. Another area of increasing capital for banks became sovereign funds, however, after investors began to absorb the losses of banks, the cost of capital was very high. Lack of clear understanding by investors of complex capital structure of banks has made them almost impossible for equity contributions, but use the simplest and most expensive instruments entering the stock market. At the same time, investors are concerned about the nationalization of financial institutions and the massive dilution of shareholding, which also creates difficulties for banks in the mobilization of net equity. It is not wrong to compensate for losses due to the use of hybrid instruments that contain the obligation to repair the damage after 10-20 years.

Comparative analysis of modern ways of reforming government regulation mechanisms MFA in cooperation with multinational banking capital suggests that the situation in China is instructive example of reverse trends in the financial market, where, unlike Western markets during 2009 unfolded credit boom. Only the first half of 2009 Chinese banks provided loans totaling about $ 1.1 trillion. and actively continue to finance various projects in 2010 [9, p. 58].

It is important to emphasize that Chinese banks are performing and scenarios developed by the government in lending plans for the national economy. However, they have long exceeded their designed for government loan volume indicators, but continued pursuit of profits. Probably later portion of these loans will go into the category of bad debt, but the Chinese bankers have shown particular concern because government policies aimed at increasing the money supply as banks are well protected as self-supporting.

Forms and methods of stimulating business activity in the real sector of the national economy of China have been worked out yet 80-years, the twentieth century. When the government directive regulating lending banks unlimited large state enterprises. However, the policy decision on lending led to the accumulation of financial institutions y huge amounts of bad debt, borrowers who never intended to return. On 01.01.2004 their volume reached a mark 20,4% of total loan portfolio of the banking sector, which constituted 16.5% of GDP in China.

These negative processes threatened to escalate into default, the macroeconomic situation in China, but it is government measures to transform the regulatory mechanisms of macro-financial instability allowed to minimize risks. In particular, was established banking regulatory commission (SVRS) as an institute of state of crisis management, under the supervision of the national financial institutions were directed $ 100 billion of public funds, and preferences were formed to attract multinational banks, as foreign strategic partners, except cheap financial resources, the Chinese bankers provide best practices, knowledge management and business technology. By the end of 2008 the bad debt declined to 2.5% of the loan portfolio, which is also accompanied by profound changes in corporate culture: employees of financial institutions began to act as strategic managers, a not-leaders as agents of government policy.

The consequence of this reform was the way of big Chinese banks on the trajectory of self-sustaining growth, which clearly shows listed in the Hong Kong Bank of China, Industrial and Commercial Bank of China and China Construction Bank (CERs). It is important to underline that the present credit and financial institutions have shown relatively high economic results during the global economic crisis and global recession, particularly in cer tax profit 01.01.2009 increased by 26.9%, almost 120 billion yuan ($ 17.5 billion .) CER has become a leader in the field on speed increase in income from interest and commissions (22.8%). In addition, the Bank has established special branches to serve small and medium enterprises, management of cash management services and investment banking, expanding base of retail customers and increasing amounts of wholesale operations, where cer ranks first in the country in areas of infrastructure finance and insurance of mortgages. Thus, 98% CER business is concentrated in China, where there are 13.4 thousand branches and the world's largest ATM network (ATM 31.9 thousand 01.01.2009 [12, p. 72].

It is clear that the global crisis has reached China, extremely high rates of economic growth, which is still provided social stability (increasing the number of jobs at 20 million per year) in the past. Liquidity flows have already reached the maximum marks on the stock exchange, real estate market shows rapid growth in prices. In addition, Chinese exports fell sharply during 2009 - an annual decline was 23%, a foreign direct investment decreased by 35.7%. It should be noted that the state policy of China in the MFA program of economic development priorities clearly maintains macroeconomic dynamics, even ignoring the risk of braking the pace of innovation. State not only led the bankers to finance half of the package to stimulate the economy (4 trillion. RMB, or $ 586 billion), but strongly encourages them to further expansion of credit. Although the Central Bank of China is aware that so much of the credit terms would inevitably affect the money supply and inflationary expectations, the proportion of bad debt continued to decline [8].

During the first quarter of 2009 only 37% of loans were medium - and long-term, which were intended to finance infrastructure projects. Also, the Central Bank of China has spurred the credit activities of financial institutions, taking the decision to lower requirements for borrowers engaged in infrastructure development. For projects of roads, railways and metro maximum acceptable ratio of equity to total assets was reduced from 35 to 25%, a marine ports and airports - up 30% to facilitate local government access to bank loans.

However, it should be noted that although exports and ceased to decline, through a massive increase in credit spreads associated with increased risk of default and its annual decline in the first four months of 2010 reached 21% More than half of the loans (2.4 trillion. RMB) were short-term, and from about 1.5 trillion yuan - a loan granted for the payment of current accounts. Since early 2009, their volume increased by 150%. This means that money on low rates seem to save companies that have threatened bankruptcy (at least for the moment), or to finance risky speculation on the stock exchange and real estate. In addition, economic stimulus program that contained 53 thousand new infrastructure projects, increased the budget deficit in 2009 to 3% of GDP (a record for the past 30 years) compared to 0.4% in 2008.

In this context it is important to mention the Asian financial crisis of 1997-1998, when Chinese banks by the same mass rapidly expanded lending resources giving insolvent state companies. The result of this policy was the huge accumulation of bad debts, which the state bought the exit of its largest financial institutions on the IPO. It is likely that at the present stage of the Central Bank of China policy seeks to use the same scheme - to buy banks' risky debt y during the period when the economy starts to generate money to pre-crisis rate. In particular, previous recapitalization for financial institutions, China's government has earmarked $ 100 billion, representing 5% of total foreign exchange reserves, and thus became the main priority of macro-financial load banks bad debts and subsequent recapitalization as one of the mechanisms used to guide state its currency reserves in the real sector of economy [4].

It is important that the hyperactive role of government in cooperation with multinational banking capital is a negative reaction in Western economic circles, because of these schemes inevitably suffer investors (primarily foreign). First, involvement of state capital in their packages will be blurred. But more real damage to the interests of international investors a potential increase in the percentage of bad debts. After all, when they bought shares in Chinese banks during the IPO placement, he believed in the prospect that these institutions, which in the past were simply agents of service to government subsidies, reform of the subjects are able to generate profits. Moreover, for most investors is the most important was the promise of the PRC's banking on a radical reform. Effectively functioning banks, whose activities are based on commercial principles, are crucial for long-term economic progress of China. It is clear that at the present stage to overcome the economic crisis the country needed economic stimulus, but for her important and banks that allocate capital efficiently and managed in a credible regulatory regime.

Considering the contradictions of contemporary processes of transnationalization of banking capital in emerging market economies in terms of global transformational aspect out of systemic crisis, we can state that during the next 3-5 years, the global banking system becomes qualitatively new features. Major banking groups in most States, both industrialized and countries that carry out the transformation system will look completely different: some of them go bankrupt, while others will be absorbed by more successful competitors. Even the U.S. banking system at the present stage dramatically different from the one it was the end of the twentieth century. Investment banks ceased to exist and have been converted into bank holding companies, banks focus on its core divisions, and times when financiers were making money out of the air remained in the distant past.

Select models of macro-financial priorities of cooperation with multinational banking capital to Ukraine as a prerequisite out of the system crisis also requires a thorough rethinking. After the application of Western liberal model is premature, and using the Chinese model is not feasible for many reasons, including lack of significant amounts of foreign reserves, a large corporate debt, as well as smaller scale domestic market [3].

In general, analyzing the modern history of banking regulation in Ukraine should pay attention to the seemingly paradoxical existence of permanent conflict between the strategic (and, as practice shows, most positive) regulatory initiatives and current interests of the banking market. As a representative example is the efforts of National Bank for a year before the crisis against dollarization of the banking sector and restrictions on consumer lending in foreign currency. These efforts were unsuccessful due to strong resistance to the banking community. Financial terms have not agreed to lose a considerable part of the business and managed to delay this limitation, though aware of the high level of foreign exchange risks.

As a result, only in the first half of 2008 was issued to the population of foreign currency loans (including mortgage) in an amount exceeding $ 7 billion, why, this is a wrong trend dominated the peak of growth in property prices, which subsequently depreciated. As a result, a large proportion of these loans (40%) for the banking system was problematic [6, p. 45].

Given the drastic reduction of the resource base of the banking system Bank policy priority was improving the capitalization of financial institutions. Among the latest innovations in this area is worth mentioning the establishment of requirements to the minimum regulatory capital of at least 120 million. In addition, preparing for the second reading in Parliament a bill on amending the Law of Ukraine "On Banks and Banking, which proposes to increase the requirements for minimum registered capital up to 500 million hrn [5].

However, even in post-crisis period, which requires constructive engagement from the owners of commercial banks for additional capitalization, there is resistance banking community. As the crisis, when there were established standards of banking supervision, Basel II, most reputable Ukrainian bankers insist on the timing of innovations. The reluctance of shareholders to increase capital of banks is quite natural phenomenon, because economic activity is unprofitable sector, and adequate income are expected only in the long run. This reluctance is typical for large and small banks, both domestic and international subsidiaries of banking groups. However, an alternative to capitalization (as a tool for improving the reliability of banks) was not found. Increasing capital requirements of banks is not only a national feature of Ukraine, speaking at the present stage of a global trend of financial markets.

Obviously, the higher requirements and standards of control over banks is a global trend and to recognize that the rules on the world market soon will dominate the domestic financial sector regulation. This statement applies not only in establishing standards of capital adequacy but also a wide range of business practices is an example of why the introduction of the new Law of Ukraine "On Combating the legalization of criminally derived proceeds." Standards Act regulations strengthen the financial monitoring for banks, causing a negative reaction to the banks. However, the adoption of this law was in effect adaptation (approximation) norms of Ukrainian legislation to international standards in Western countries is even more stringent [2, p. 10].

In particular, at the EU directive matter laundering "dirty" money are increasingly considered in the context of the so-called compliance (compliance with regulatory requirements and rules of professional conduct). Compliance requirements are not limited to money laundering, they also include rules to prevent corruption, regulation of banking practice transactions with insiders, use of insider information when making transactions, and set standards to prevent conflicts of interest.

It is important to emphasize that the affiliated establishments of transnational banking groups that function in Ukraine, are already beginning to implement these rules, regardless of their introduction into Ukrainian legislation, because already in the short run any Ukrainian credit-financial institution is unlikely to qualify for borrowing on international financial markets, if not meet the standards of compliance. At the present stage of withdrawal from systemic banking crisis must not only meet national requirements MFA regulations, but also international standards and norms that determine the development of global regulatory environment.

SOURCES:

1. Ansoff I. The new corporative strategy. NY. 1998.
2. Ash T., Ahmad I., Dwor Frecaut D. Local Markets Strategy: Predicting Sovereign Debt Crises // Research Recommendations. – UK.: The Royal Bank of Scotland - 25 June 2009. – 14 pp.
3. Barucci E. Financial Markets Theory. Equilibrium, Efficiency and Information. - Springer-Verlag London Ltd., 2003. - 467 p.
4. Bhagwati J. The capital myth: the difference between trade in widgets and trade in dollars // Foreign Affairs. – 1998. – X277. – Pp. 1 – 12.
5. Claessens S. How Does Foreign Entry Affects the Domestic Banking Market? // Journal of Banking and Finance. – 2001. – №25.
6. Di Mauro F., Forster K. and Lima A. The Global Downturn and its Impact on Euro Area Exports and Competitiveness // Occasional Paper Series., European Central Bank, 2010, Frankfurt am Main, Germany – No119 / October 2010 – 51 p.
7. Dinger V. Do foreign-owned banks affect banking system liquidity risk? // Journal of Comparative Economics. Volume 37 (2009) Issue (December). – pp. 647-657.
8. Greenspan A. The Age of Turbulence: The Adventures in a New World. — New York: The Penguin Press, 2007.
9. Hawser A. (2010) Features: Awards–Best Emerging Market Banks 2010 Asia // Global Finance., May 2010. – pp. 56-61.
10. Keay J. (2010) Emerging European economies are starting to recover from a steep and painful slowdown // Global Finance. Features: Regional Report – Central & Eastern Europe, May 2010. – pp. 40-42.
11. Levine R. Bank-based or market-based financial systems: which is better? // Journal of Financial Intermediation. – Volume 11. – Issue 4, October 2002. – P. 398-428.
12. Ma Z., Pawar K., Lin C., Riedel J. (2007), Evaluation of team interaction patterns during NPD within European and Chinese contexts // International Journal of Chinese Culture and Management, Vol.1 (1). – pp. 70-72.