

Dynamics of the Banking System Activities in the Political Crises in Ukraine

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Abstract: The aim of the article is to trace the main tendencies of Ukraine's development of the banking system. The dynamics of assets, liabilities, deposits, credits and refinancing rate were analyzed. Ukraine was chosen as the object of research for 2 reasons: as the example of emergency economy and close connection with joint authors life experience. Thus the paper presents the main indicators and the results of study the current state of the economy through banking system and based on assumption of the great influence of financial sector to others part of the economy.

Key words: banking system; economic crisis; financial market; assets; liabilities; deposits; credits; refinancing rate; Ukrainian economic system

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1. Introduction

The banking system as one of the main parts of a financial system usually consists and of central, governmental and commercial banks. The main functions of this system are to provide the money turnover and promote the investments development. Legal and physical entities use banking for getting loans and deposit opening, account management and currency operations. Banking system is a sensible indicator from high-risk and flexibility internal processes that caused by the work with one the most fast-moving and high-speed velocity product. Therefore, all-pervading of banks activities and a total amount of money accumulated there make bank system the most important part of financial sector and determine its significant role for economic growth. The effectiveness of banking system depends on the restructuration process, adequate governmental policy in this sphere.

Thus, the banking system status gives a possibility to identify the conditions of economic development in general. In terms of political crisis, which is accompanied by informational asymmetry, the banking system becomes the main indicator of socio-economic health of the state. A lot of world-known scientists placed high emphasis to banking systems of different countries or in general. Jozeph Sinki worked on importance of financial innovation and management of risks in financial development of banks (USA). Colin D. Campbell and Rosemary G. Campbell developed fundamental principles of banks activities organizations that are still relevant for most of

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development countries.

The status of mentioned spheres is a very important especially for developing countries and countries under the temporary or permanent conflicts because of two reasons. Firstly, it is necessary to monitor the human development processes and living conditions. Secondly, taking into account, the significant influence of banking system into all field of economy, its modernization seems to be the shortest way to the “bright future” — positive changes in a country’s development.

Therefore, the main purpose of this research is to investigate the dependences between banks indicators and political crisis. Theoretically, the results of the analysis give the possibility to find the predictors of political disorders and determine the strategies of improving the economy. The activities of Ukraine became the object of this research, because of several factors. On the one hand, there are open data about banking system dynamics since 2002; on the other hand, taking into account, the citizenship of authors, this is not a particular problem to collect the qualitative information about all political changes. In addition, it is necessary to mention that the repetitive difficulties in political sphere of country make it possible to find periods and to avoid randomness in the analysis.

2. Preconditions of the Analysis

Taking into account that Ukrainian banking system was chosen as a base of this research, it is necessary to investigate its main characteristics in context of financial market and current political and economic situation.

The main features of financial system can be described by following distribution of its components:

(1) insurance market (the total sum of receipts of premium was UAH 35975.7 mln according to financial reporting for 2015 year);

(2) credit agencies (total assets of credit unions were UAH 2232.3 mln, other credit agencies — UAH 12911.0 mln, legal entities with public rights — UAH 9894.9 mln);

(3) financial companies (loan issue — UAH 303.4 mln, guarantees of payment — UAH 0.3 mln, insurance arrangements — UAH 4.7 mln, factoring — UAH 3928.9 mln, currency exchange operations — UAH 119.5 mln, remittance works—UAH 4169.7 mln, providing financial credits from own funds—UAH 2512.8 mln, funds of construct financing — UAH 16051.9 mln, real estate transactions — UAH 43.1 mln).

The above-listed markets refer to non-bank sector and their total assets are UAH 68.3 bln. This sum is only 5.24% from total assets of financial market system. Therefore, the banking system accumulates UAH 1302.5 bln — approximately 95%.

Thus, we can mention, that the banking system is the main part of Ukrainian financial system. Therefore, the investigation of banking system represents general trend in finance sphere that influence to all economy of the country.

The banking system consists of the National Bank of Ukraine and other banks, which have been working on the Ukrainian territory and can be divided in government and commercial.

The main function of National Bank of Ukraine that was estimated by Constitution of Ukraine is to provide stability of currency unit. The legal status of the National Bank of Ukraine and the principles of its organization and activities are determined by the Constitution of Ukraine and the Law of Ukraine “On the National Bank of Ukraine”.

The most important functions are the following:

- to supervise banking and regulate the banks;
- to license trade and banking register;
- to establish accounting rules and data recording and to conduct banking transactions;
- to compose the balance of payments, its analysis and forecasting;
- to refund raising and credit activities;
- to create and support monetary and credit system with banking statistics information.

It is necessary to divide approaches that determined the sense of the bank activities on the legal and economic. According to the first approach, the bank will determine circuit, permitted by law, based on country-specific legislation. Therefore, there is a difference between the interpretation of the term “bank” in different countries. The law practice does not express the full essence of the bank, but it significantly limits the types of activities.

According to the Law of Ukraine “On Banks and Banking Activity”, the bank defines as an entity, which operates under a license of the National Bank of Ukraine in such fields: capture individuals and legal entities deposits, place funds on its behalf, on its own terms and its own risks, open and maintain bank accounts of individuals and legal entities.

Economic Code of Ukraine defines banks as financial institutions, which functions are to attract deposits of individuals and legal entities in cash and to place these funds on their behalf, on its own terms and at its own risk, to open and maintain bank accounts of individuals and legal entities.

The form of ownership differs state banks, which owned and managed by public authorities, banks with mixed capital (banks with foreign capital and parastatal banks), interstate banks, resources of which could be used by member-countries, joint stock banks — authorized capital created by the sharing issues. In addition, there are private banks — private institutions with one or more owners. Other classification on municipal banks, owned by the city government; cooperative banks — created on the basis of equity; syndicated banks, which were established by several banks or companies for the realization large projects.

The bank specialization is based on the structure of its assets and liabilities. Therefore, it's possible to divide them on universal and specialized; other variant according to their main activities-investment, savings, mortgage, clearing.

Savings banks specialize on deposit and credit transactions. Investment banks engaged in investment policy through the process of buying the shares. Innovative banks carry out lending operations of venture capital, loans renewal of fixed assets, technical and educational programs. These banks specialization is long-term and medium-term loans. Mortgage banks main activities are real estate and providing long-term secured credit. There are a lot of risks of this activity, and interest rates are among the highest in the industry. Mortgage banks divide the real estate bank, meliorative, communal banks. Clearing banks provide services in the form of public support on their accounts for important commercial projects, operations with security.

Moreover, its possible to mention one more type of the banks in Ukraine sanation bank. This bank gets their obligations of other banks where the state took part in the capitalization. The risk assets transferred to the bank without compensation of their value and evaluation, and the rights of depositors and creditors significantly limited.

Therefore, the bank can be defined as multifunctional financial institution that makes a wide range of services with loan and payment characteristics, and performs a variety of financial functions concerning every company in the economy with the main purpose to make profit.

In terms of the economic approach it is necessary to investigate banking product which is specific and inherent to this category of agents. In case, the issue about the nature of the bank is not solved. It can take the role of a

depositor, organization, agent on stock exchange and credit enterprise.

There is no less used definition of “commercial bank”. In broad terms, the means of bank and commercial bank are identical, but the last one — is the bank with subordination of the central bank system.

In a narrow sense the main purpose of commercial bank activities is to maximize profits.

Thus, the bank can be defined as an institution which involves temporarily available funds with a purpose to assign them to temporarily use; performs agency transactions and other operations, which are under the law.

The banks operate in conditions which are characterized by unpredictable external factors and high risks. The internal structure of banks, a large number of banks products lead to complicate decision making process and increase the responsibility for their consequences. Therefore, the quantitative methods are widely used to support the activities of commercial banks.

The total sum of loans, given to residents is of depository corporations (banks) at the end of October 2015 amounted to UAH 770 mln UAH, deposits — UAH 721 mln. The main source of funds is households, but the, loans are given more to legal entities. The statistic information shows that banks are interested in getting the borrowed funds.

Ukraine’s banking system operates in the situation of difficult economic and political transformations, with the limitation for international funding. Loan and deposit activities of commercial banks is one of the important factors for economic development.

It is necessary to determine the characteristics of the commercial banks to study the conditions of the market and its key indicators.

Banking system of Ukraine is closely connected with crises, which happens at the economic of Ukraine. All difficulties of the economical system reflect according to banking. There are a lot of scientific works in the economical magazines abroad, which had an increased focus on problems of influence economical crisis on Ukrainian banking system. For example, we can mention, one international company Standard & Poor’s, which made analytical researches of financial market. That’s why the problem of influence crisis on banking system is an actual question for research. So, this question requires in classification of information array.

Among them we can separate the following:

The first crisis was started in 1990 — “Revolution on the granite” was one of the most successful movements on the road to independence of Ukraine. Ukrainian students applied to the government with a great list of demands particularly for Ukrainian independence.

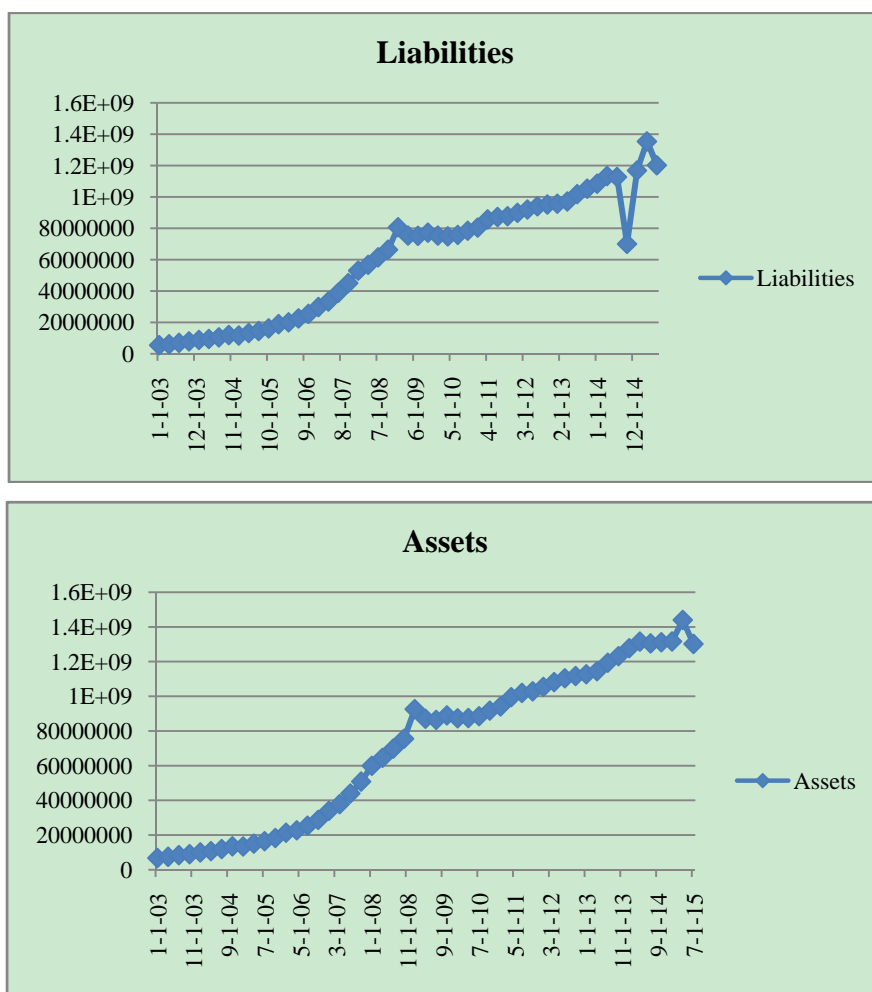
One more crisis was in 1996 year — “Economic woes”. “An absolute failure”, because it was adopted with a huge hidden deficit and was managed improperly, which resulted in wage, pension and stipend arrears. That was an economic and financial crisis.

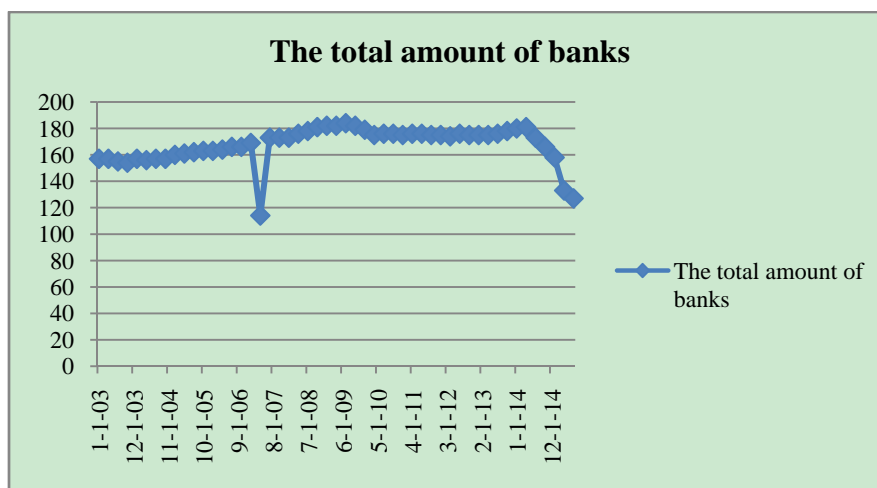
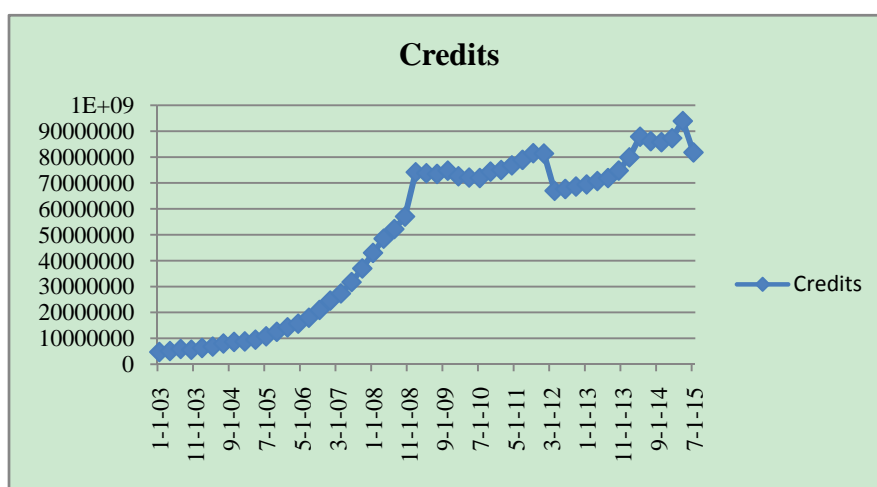
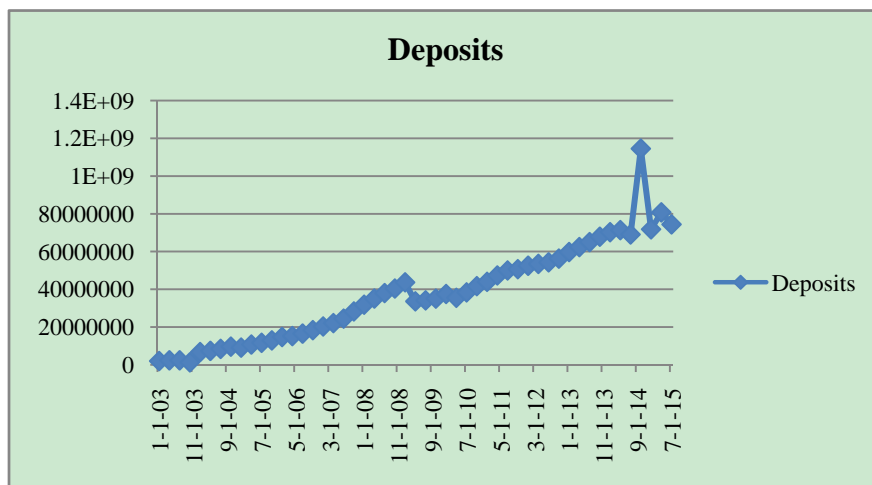
Many state workers suffered as a result of the economic situation in 1996; miners, teachers, doctors, retired workers, students and many others went without wages for months. A comprehensive yearlong study of poverty in Ukraine, funded by the World Bank, determined that 29.5% of the country’s citizens lived in poverty. Many of the poor are elderly who lived on measly pensions of less than \$20 per month.

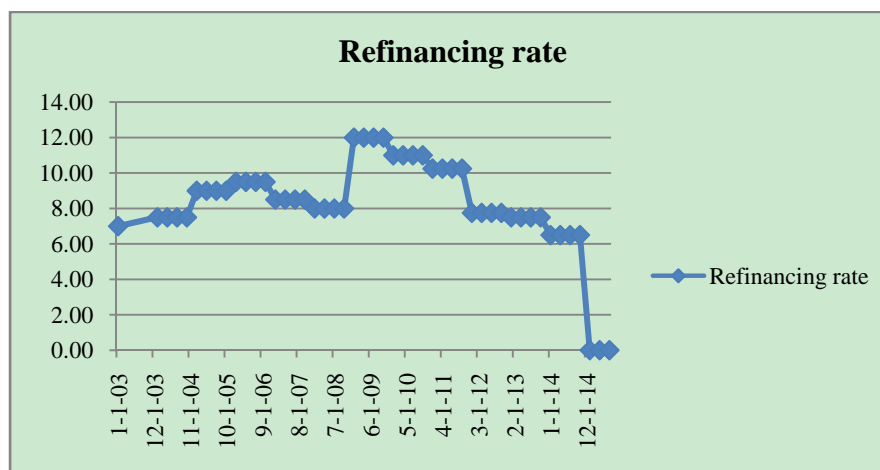
2008-2009 years. Instead of the common opinion that it was the global financial crises, the main reasons were “credit bubbles” and non-effective management of financial system. As the contagion from the global crisis spread in 2008, the hryvnia lost over 50% of its value comparing to the US dollar, that led to a loss of consumer confidence in banks and mass withdrawals.

The events during 2013-2014 were named the “Revolution of Dignity”. The Ukrainian “Euro Maidan” became a serious challenge against difficult economical lifestyle in Ukraine by nation. There were many versions about why the revolution happened and led to the aggression between Russia and Ukraine countries. Unfortunately, Ukraine lost Crimea and part of the East territories, withdrawn by Russia. The Ukrainian crisis was a totally unexpected situation.

3. Statistics Analysis of the Relation between the Crises and Banks Financial Indicators







4. Conclusions

As can be seen from the graphs, the Ukrainian banking system, which experienced for its not long existence a lot of financial turmoil, is recovering after the criseses, in the next few years. This happens mainly due to an emergency injection of liquidity by the National Bank of Ukraine. This money comes to the National Bank of Ukraine, in the form of loans, from various financial organizations are salvation for the banking and financial system of the country. For the repayment of these loans, Ukraine needs stability in the political life, and, after that, the correction of the economic situation.

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