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FOREIGN BANKING CAPITAL AS A FACTOR OF INCREASING THE BANKING COMPETITION AT THE FINANCIAL MARKET OF UKRAINE

According to Law of Ukraine „About banks and banking activity” (asset 4) banking system of Ukraine consists of National Bank of Ukraine and other banks, and also foreign banks’ branches, which are created and act at the territory of Ukraine accordingly to this Law¹. Ukrainian legislation marks out the category „bank with foreign capital”. It is meant as a bank, which the capital’s part of any foreign investor is higher than 10% (Law of Ukraine „About banks and banking activity” (asset 2)).

Foreign capital at the Ukrainian banking system is increasing annually (table 1). The interest of foreign investors at the share capital of banking system is the main criteria of their significance and represents the level of involving to the process of banking strategic decisions. The evolution of this index during last years indicates the increasing influence of foreign capital on national banking system. At the end of 2009 year it (the interest of foreign investors at the share capital of Ukrainian banking system) was 35.8%. It’s much higher than in banking system of Russia (24.53%)² or Byelorussia (27.25%)³.

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¹ Про банки і банківську діяльність [Електронний ресурс]: закон України: офіц. текст: від 07.12.2000 № 2121-III. – Режим доступу: <http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=2121-14>.

² Информация о кредитных организациях с участием нерезидентов на 1 января

As a result, the most intensive economic competition at the Ukrainian financial market is between national banks and banks with the foreign capital. It's also caused for underdevelopment of nonbanking financial market segment.

Table 1. The Evolution of Foreign Capital Share at the Ukrainian Banking System

Indicators Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Quantity of operating banks, pcs.	153	152	157	158	160	165	170	175	184	182
Banks with foreign capital, pcs.	31	21	20	19	19	23	35	47	53	51
Banks with 100% foreign capital, pcs.	7	6	7	7	7	9	13	17	17	18
Percentage of the total quantity:										
– banks with foreign capital, %	20,3	13,8	12,7	12,0	11,9	13,9	20,6	26,9	28,8	28,0
– banks with 100% foreign capital, %	4,6	3,9	4,5	4,4	4,4	5,5	7,6	9,7	9,2	9,9
Percentage of the foreign capital at a share capital of operating banks, %	13,3	12,5	13,7	11,3	9,6	19,5	27,6	35,0	36,7	35,8

Composed by authors on the base of source⁴

2010 года / [подгот. департаментом лицензирования деятельности и финансового оздоровления кредитных организаций] [Электронный ресурс] // Вестник банка России. – 2010. – № 14(1183). – С. 17. – Режим доступа: <http://www.cbr.ru/publ/Vestnik/ves100304014.pdf>

³ Институциональные характеристики / [подгот. Главным управлением банковского надзора] [Электронный ресурс] // Банковский сектор республики Беларусь. Краткая характеристика устойчивости функционирования. – 2010. – С. 4. – Режим доступа: http://www.nbrb.by/system/banksector/2010/bs_20100401.pdf

⁴ Основні показники діяльності банків України на 1 січня 2010 року / [підгот. співробітниками управління аналізу діяльності системи банків департаменту методо-

Ukrainian scientists haven't the one idea of the place of banks with foreign capital at the financial-economic environment of Ukraine. So, Mr. Oleksander Baranovskyj suggested that foreigners' advent to Ukrainian market of banking services was stimulated by unpredictable high domestic demand on banking services, low competition, weakness of domestic banks, high inflation that had complicated the process of forming low-price liabilities⁵. The scientist considers that foreign capital's occurrence at Ukrainian banking system is to make it more civilized, effect positively on its efficiency and the level of involving into global financial area. The academician of the National Academy of Science Mr. Valerij Geets declared in his interview (2006 year) that the situation was in accordance with the national interest of financial system development, enabled foreign investment and resource expansion of social-economic progress⁶.

At the same time, the scientists accented on serious financial and economic risks for rapid increasing of foreign banking capital share, probable loss of sovereignty in money-and-credit policy, strengthening instability, unexpected fluctuation of bank's liquidity, speculative changes of demand and supply on money-and credit market, probable flight of financial funds.

The experience of countries, whose banking systems are characterized by high percent of foreign capital, affirms that the negative effects are the most essential during sudden economic recession or crisis. For Ukraine we are to note the worsening of the national banking systems liquidity since September 2008. It's important to announce that banks with foreign capital gave evidence of stable, liquid and creditworthy activity in contrast to the majority of Ukrainian competitors. It was done by prior „reinforcement” of banks' liabilities by subordinated loans from foreign mother-structures. For national banks just National Bank of Ukraine and other domestic private sponsors were the only real creditors during crisis 2008-2009.

The results of our analysis (as an object was chosen the group of the biggest banks of Ukraine) revealed more than double exceeding of subordi-

логії, банківського регулювання та нагляду НБУ] // Вісник Національного банку України. – 2010. – № 2. – С. 43.

⁵ О. Барановський. *Іноземний капітал на ринках банківських послуг України, Росії та Білорусі* / О. Барановський // Вісник Національного банку України. – 2007. – № 9. – С. 15.

⁶ В. Геєць. *Іноземний капітал у банківській системі України* [Електронний ресурс] / В. Геєць // Дзеркало тижня. – 8-14 липня 2006. – № 26(605)8 – Режим доступу до газети: <http://www.dt.ua/2000/2040/53895/>.

nated loans of banks with foreign capital unlike domestic banks (table 2). We also examined the level of clearness and openness the information about creditors, loans terms and their cost. Only two of the biggest domestic banks of Ukraine gave the information in the annual account. At the same time only 3 of 10 banks with foreign capital didn't inform about this aspects.

Table 2. Volumes of Subordinated Loans, formed by the biggest banks of Ukraine

Bank	As of:	
	01.01.2009	01.01.2010
National banks		
Sum (dollar equivalent), thous. Dol. USA.	548712,1	812055,1
Percentage by total volume:	17,8	21,0
Banks with foreign capital		
Sum (dollar equivalent), thous. Dol. USA.	1598492,7	2028307,1
Percentage by total volume:	51,9	52,4
Total volume of subordinated loans in Ukrainian banking system (dollar equivalent), thous. Dol. USA.	3079189,5	3872102,1

The analysis of the main indicators of efficiency and stability of banking activity in section of national banks and with foreign capital declares the rapid increasing of market positions of banks with foreign capital. We examined such indexes as return on equity (ROE), return on assets (ROA) and banks' position on credit and deposit market during 2001-2009 years. As the results of our research we came to such conclusions:

1. ROA and ROE indexes during all analyzed period are much higher in national banks. At the beginning of 2008 year the average index of return on equity in the group of the biggest national banks was 11,6% in contrast to 7,87% in banks with foreign capital. ROA index is analogous: 1,2 – national banks; 0,72 – banks with foreign capital. In financial-economic crisis the researched indexes in these groups became almost equal.

2. The leadership of national banks is also observing in funding activity (we mean domestic market of clients' financial resources). It's caused by banks' with foreign capital exceptional opportunities for efficient funding from foreign mother-structures. But even in such conditions Ukrainian banks are losing their positions on this market segment annually. 2009 year is an exception in this context. The reason is: among the biggest banks of Ukraine

there are two state banks and nevertheless to the total state power crisis and historic events of 90-s, the funds flight from private banks was conducting by their accumulating in state banks. Also in crisis time the Cabinet Council of Ukraine resolved to nationalize some private banks, after what they automatically entered the biggest banks group and were assigned mediators in liquidated banks' deposits repayment. As a result, it has caused deposit funds increasing in national banks. It's important to note that banks with foreign capital didn't have such preferences (mean state support), but at the same were able to hold their positions on domestic deposit market.

3. Concerning banks' position on domestic credit market are to state the essential leading of banks with foreign capital. The equalization of the market portion of two researched group of banks was attained in 2005 and further trend was characterized by stable enforcement of banks with foreign capital on Ukrainian credit market. The described results are shown in figure 1.

The increasing of banks' with foreign capital role at Ukrainian financial market didn't stimulate the price competition and influenced on banking services' cost in no way. From our point of view, it has been caused by inner peculiarities of banks' with foreign capital management; by problems in national banking system and some aspects of environment. So, detecting inner banking peculiarities, that prevented essential changes at financial market of Ukraine (mean price results of competition), we have marked the following:

1. Banks with foreign capital are given higher credit ratings that their direct national competitors. It stimulates opportunities for funding relatively cheap and long-term financial resources at world market. It obviously results the reduction of financial products' prime cost in this group of banks.

2. Because of different approaches to banking business management in Ukraine and Western Europe and for adaptation of organization and realization bases of banking activity to mother-structure's strategic view, the majority of banks with foreign capital have been involved into capital-intensive programs for according changes of activity's inner organizational systems. It has stipulated the necessity of profit's maximization in order to realize all these tasks.

3. Banks with foreign capital possess some preferences that explain their restraint according to the products' cost reducing. Like banks' preferences we mean: big variety of financial products; the usage of qualitative banking information technologies and progressive approaches to organization of back and front-office activity; rational risk-management policy and much attention for ensuring the financial sustainability (in confirmation are to note that there are no banks with foreign capital in the banks' list of Temporary Administration of National Bank of Ukraine, as of 01.07.2010).

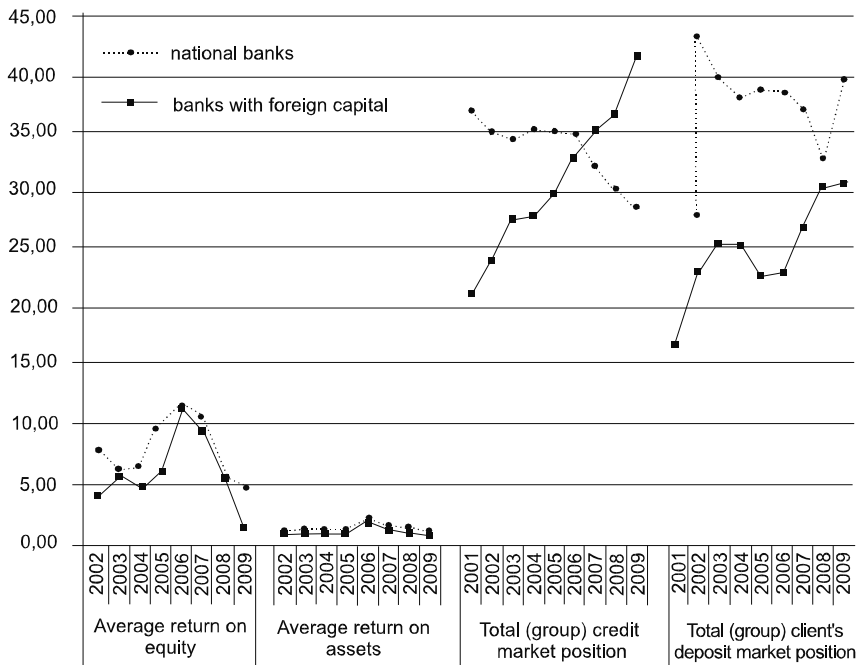


Figure 1. The indicators trend in section of banks with foreign capital and national banks of Ukraine

Other reasons, that intensify the positions and the level of competitiveness of banks with foreign capital, disclose by the national banking system's problems, which are the following:

1) short-term funds of national banks that don't correspond to economics' demands for long-term investment;

2) inadequate capitalization. It has resulted inability of efficient risk covering and of providing reliable client's interest protection. As a result, it has caused the reduction of financial sustainability and increase the bankruptcy risk;

3) the prominent Russian scientist, vice-president of Regional Banks Association „Russia”, Mr. Handryev O.A. considers the main reason that national banks are behind banks with foreign capital is low business efficiency and the business-process organization⁷. Can't but mention that up-to-date busi-

⁷ А. Х а н д р у е в. 2007 год войдет в историю банковской системы как год продолжающейся консолидации / А. Хандруев // Банковские технологии. – 2007. – № 12. – С. 22.

ness approaches, based on information systems, dispose to creation of new banking products with higher answered clients' demands and cause the increasing of banks' market positions. The investments for information technologies engineering are needed in order to solve this problem. But in our time in Ukraine only the biggest banks are able to do it. Other groups of banks don't possess the necessary financial resources for such investments. Automated systems, that are in use by the banks' majority, are out of date and don't give the ability of prompt adaptation to the competition conditions. But, unfortunately, lack of resources is not the only problem of national bank. They don't realize the global role of technologies for business competitiveness. As a confirmation are the inquiry's results, that was conducted by Association of Russian banks in 2006 in order to assign management technologies that banks plan to introduce during further years. They got such results: the first position was given to program products, intended for financing planning (also planning in section of banking products); the second – for risk-management and annual report preparation; the third – for management accounting and reporting. The fourth and fifth positions, with great out of three leaders, were taken by predicting instruments and strategic management and planning⁸. Most probable those analogous results might be in Ukraine too. So, one of the main problem of national banks (with some exception) is disinterest in strategic business. Most banks work on current result, referring on national market instability and inability to forecast it.

4) Relative transparency of national banks activity. We have essential increase of report quality, but at the same time, there is great difference between information transparency in banks with foreign capital and national banks.

We can't but mention, that except the described inner peculiarities of banks' with foreign capital arrangement, the national financial market itself and environment form comfortable conditions for their activity.

Firstly, we mean high efficiency of national market and banks with foreign capital (as any commercial institution) mustn't loose such financial opportunities. Secondly, national banks have, as a rule, credit focus (thought they declared themselves as universal financial institutions) and the current process of national non-banking system's formation create additional opportunities for banks with foreign capital for the developing of new financial market's ni-

⁸ *Интеграция требует хорошего сценария* / [Ю. Амириди, К. Булгаков, Е. Лукутина та ін.] // *Банковские технологии*. – 2007. – № 10. – С. 25.

ches. The experience of mother-structures in financial products designing and promoting obviously positively effects on the efficiency of these tasks.

Other peculiarity of Ukrainian environment is that the national economic players are inherent to cooperate with foreign companies. From our point of view, it can be explained by creditability gap of state, national economic-legal and moral-ethical principals in business.

So, due to this research we came to the conclusion that the activity of banks with foreign capital positively effects on economy of Ukraine. It was up to crisis period (the activation of long-term credit programs and investment loans) and during the crisis (banks with foreign capital were providing stable and reliable activity on financial market of Ukraine). That is why further economic efficient activity is expected. Taking into consideration current „freezing” of banking crediting, we are on the eve of hard competition, especially among big and system banks. As a result, the place of banks with foreign capital at Ukrainian banking system will be detected finally.

So far as the last possesses exceptional opportunities for long-term funding and capital's enlarging, they (banks with foreign capital) can be a keystone in the renewal of economic potential of Ukraine. So, in conclusion of above-mentioned we consider that foreign banking capital is not a threat for financial sovereignty of Ukraine and quite the contrary is one of the determinants of its economic development.

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FOREIGN BANKING CAPITAL AS A FACTOR OF INCREASING
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S u m m a r y

The problem of significance and role of foreign banking capital in the aspects of Ukrainian financial system development and economic potential management is researched in this article. The accent was made on the necessity of national economic and financial sovereignty conservation.

Key words: bank with foreign capital, financial sovereignty, banking competition, financial market.

ZAGRANICZNY KAPITAŁ BANKOWY
JAKO CZYNNIK ZWIĘKSZENIA KONKURENCJI BANKOWEJ
NA RYNKU FINANSOWYM UKRAINY

S t r e s z c z e n i e

W artykule przedstawiono problem ważności i roli międzynarodowego kapitału bankowego zarówno w aspekcie rozwoju finansowego systemu Ukrainy, jak i z punktu widzenia zarządu jej ekonomicznym potencjałem. Analizę tej problematyki przeprowadzono w aspekcie konieczności zachowania narodowej ekonomicznej i finansowej suwerenności.

Słowa kluczowe: bank z międzynarodowym kapitałem, finansowa suwerenność, bankowa konkurencja, finansowy rynek.