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PECULIARITIES AND TENDENCIES OF THE BANKING SYSTEM DEVELOPMENT UNDER THE CONDITIONS OF ECONOMIC TRANSFORMATIONS

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Анотація. У статті розглянуто сутність, структуру та етапи формування банківської системи. Проаналізовано особливості та тенденції розвитку сучасної банківської системи України в умовах трансформації економіки.

Summary. The article deals with the essence, structure and the stages of the banking system development. The author analyses the peculiarities

Ключові слова. Банківська система, Національний банк України, центральний банк, комерційні банки, активи, зобов'язання, кредит, трансформація економіки.

Ключевые слова. Банковская система, Национальный банк Украины, центральный банк, коммерческие банки, активы, обязательства, кредит, трансформация экономики.

Key words: Banking system, the National Bank of Ukraine, central bank, commercial banks, assets, liabilities, loan, transformation of economy.

Statement of the problem. The banking system of Ukraine, being a part of the overall system, has undergone a complicated way of market relationship growth and development. Under the conditions of economic transformation and the transition from distribution to market system, the destruction of traditional economic ties between business entities, the economic crisis and inflation processes had a noticeable impact on the evolution of the banking system.

The analysis of the recent publications and research. The problems of the banking system have been in the focus of attention of many Ukrainian scientists and specialists, including O. I. Baranovski, O. V. Vasiurenko, O. D. Vovchak, A. V. Demkivskii, V. V. Kovalenko, S. V. Naumenko, V. M. Oparin,

Аннотація. В статті рассмотрены сущность, структура и этапы формирования банковской системы. Проанализированы особенности и тенденции развития современной банковской системы Украины в условиях трансформации экономики.

and the tendencies of the development of Ukraine's modern banking system under the conditions of economic transformation.

M. I. Savluk, T. S. Smovzhenko, V. M. Fedosov, and others. Their research touched upon the general problems of the financial services market development, its elements and relationships arising under it.

The recent research meets with many problems that need to be solved under the conditions of economic transformation.

The aim of the article is to clarify the nature and stages of formation, and to analyze the special role of banking institutions under the conditions of market transformation of the national economy.

Ground of scientific results. The banking system of each country develops under the influence of general economic principles and specific factors peculiar for this country and the history of its development.

The main features of market banking system are as follows:

- diversity of forms of ownership;
- there is no state monopoly on banks; any legal entity and individual can set up its bank;
- the banking system is a two-tier structure;
- management scheme is decentralized;
- the nature of banking policy is the policy of many banks;
- the state is not liable for the obligations of the bank as well as the banks are not liable for the obligations of the state;
- the central bank is accountable to Parliament, commercial banks are accountable to their shareholders and the Supervisory Board;
- emission activities are focused only in the Central Bank;
- transactions related to lending businesses and individuals are made only by commercial banks;
- the Governor of the central bank is approved by Parliament. The Head (President) of a commercial bank is appointed by its Council.

The banking system is not isolated from the environment; on the contrary, it is closely related to it. It acts as a subsystem of the economy. Being a part of the whole, the banking system operates under the general and specific banking laws, and is subject to the general legal norms of the society. It acts, although expressing the features of the banking sector, may be included into the overall system, like the banking system, only if they are not inconsistent with the general principles and guidelines and allow creating the overall system as a whole. Depending on the subordination of the constituting institutions, a one-tier and two-tier systems are distinguished.

A one-tier banking system is based on a set of horizontal relationships between a number of banks, on the universalization of the conducted operations. Within the one-tier system, all banks, including the Central Bank, perform similar functions providing customers with credit and settlement services.

A two-tier banking system consists of the Central Bank as the supreme governing body and non-state banks as the lower layer. Its operation is based on the principles of vertical and horizontal connections. All elements of Ukraine's banking system have a two-tier structure:

- the first tier is the National Bank of Ukraine;
- the second tier is made of all other elements of the banking system: commercial banks, the banking infrastructure.

The National Bank of Ukraine has authorized capital being the state property, is a legal entity and the

issuing center of the country, that carries out single monetary policy, regulates the exchange rate, public debt, credit, activity of the banking system as a whole, organizes and implements interbank payments. It is accountable to the President of Ukraine and the Verkhovna Rada of Ukraine according to their constitutional powers and authorities [5, p. 219].

The NBU is not a commercial organization. The goal of its activities is not for profit; its actions are guided only by the public interest and applicable legislation.

The National Bank of Ukraine provides commercial banks with cash settlement on their request; exercises settlement and credit servicing of banks. The necessity of providing credit services to commercial banks appears when they need to increase cash flow, particularly for loans.

Commercial banks operate on a commercial basis for profit. They can be of different forms of ownership, specialization and fields of activity.

The analysis of the history of banking, the nature and mechanism of banking activity enables us to consider the bank's core activity as the complex with three intermediary operations:

- attraction of deposits;
- giving loans and creation of the means of payment;
- providing settlement for clients.

Carrying out this set of operations can be considered to be a determining economic feature of the bank. The above mentioned operations are basic, they provide primary sphere of banking activities. In case some of these operations are not carried out, the relationship between supply and demand in the money market is broken, or it must take the form of direct contacts between money buyers and sellers [1].

Thus, a set of three basic operations – deposit, credit and settlement – creates primary sphere of banking activities, and the financial intermediary performing them is a banking institution, a bank in the economic sense.

In fact, bank intermediaries, except the basic ones, can perform a number of other transactions which are non-core but necessary for the money market. However, they do not cease to be banks, as they provide a set of basic operations [1].

Serving as credit institutions, commercial banks, on the one hand, attract temporarily free funds and, on the other hand, the loan needs of businesses and individuals are satisfied with the raised funds.

The lending activity of commercial banks lies in carrying out a number of actions related to giving and paying off the bank loans. When lending, com-

mercial banks shouldn't violate the existing legislation and observe the economic guidelines regulating banking activities and the NBU requirements regarding the mandatory, insurance and reserve funds formation.

Banking should not be understood as a physical collection of all banks existing in the country. The banking system is a legally defined and clearly structured set of subordinated financial intermediaries engaged in banking activities on a permanent profes-

sional basis and functionally linked to the independent economic structure.

According to the size banks in Ukraine are divided into four groups depending on the value of assets [3]. This classification is carried out to conduct a comparative analysis of banks activities and the distribution of supervisory functions and responsibilities between the central office and regional branches of the National Bank. The structure of key indicators for bank groups has been considered (Table 1)

Table 1

Structure of key indicators by groups of banks of Ukraine as of 01.01.2014

Indicators	I group (the largest banks) 15 banks	II group (large banks) 20 banks	III group (middle-sized banks) 23 banks	IV group (small banks) 122 banks	Total in Ukraine
Assets, billions of UAH	821,6	222,9	103,3	130,7	1278,5
Share in total assets of the banking system, %	64,3	17,4	8,1	10,2	100
Liabilities, billions of UAH	709,1	179,6	90,3	105,9	1084,9
Share of liabilities of the banking system, %	65,4	16,5	8,3	9,8	100

Calculated by the author according to the data of www.bank.gov.ua.

Thus, at the beginning of 2014 the distribution of Ukraine's banking system has not undergone considerable changes according to the main indicators of the groups of banks in comparison with the same period in 2013. The share of bank assets, which belong to group I, has decreased by 0,2 percentage points to 64,3 %, the share of banks in the second group has increased by 1,2 percentage points to 17,4 %, the share of banks in group III has decreased by 0,7 percentage points to 8,1 %, the share of banks in group IV has increased by 0,3 percentage point to 10,2 %. As for the structural changes of the liabilities of banks, the share of this indicator in the group of the largest banks has increased by 1,5 percentage points and in the group of small banks – by 0,2 percentage point. As for the group of large banks it has decreased by 0.6 percentage point and in the group of middle-sized banks – by 1,1 percentage points.

Domestic banks stand a serious test of time under the conditions of sustained economic transformations. Rapidly changing operating conditions, the impact of the environment, the necessity for internal reforms result in continuous improvement of the

banking system. The level of economic development is largely dependent on the banking system [1].

According to the NBU, as of 01.01.2014, 180 banks have been licensed to carry out banking operations in Ukraine. Two institutions have been in the process of liquidation. Last year the share of the assets of the banking system increased by 11,3 % and amounted to 1,2781 billion UAH. [8]. The amount of impaired loans in the banks of Ukraine increased by 50,93 % in January-July 2014. The proportion of bad debts in gross loans increased by more than three percentage points from the beginning of the year. According to the National Bank, the amount of outstanding debt has increased by 35,7 billion USD for seven months in 2014 and made 105,9 billion USD on August 1 this year. Thus, the share of overdue loans in the loan portfolio of the banks increased to 10,8 % by the beginning of August.

According to the data of the international rating agency Standard & Poor's, the share of impaired loans in Ukraine will increase to 50 % over the next 2 years.

Almost all analysts believe that the main Ukrainian problems are the following:

- the sharp devaluation of the hryvnia (borrowers are simply unable to pay off foreign currency loans);
- the military conflict in eastern Ukraine.

Bank managers do not even hide the fact that the banks can not fully return money to its depositors because of bad loans. Ukrainian banks are unable to give new loans. It is impossible to revive Ukraine's economy without the extended lending program.

According to the expert evaluation the banking system is expected to face a number of new bankruptcies. In this case, the government will do its best to save only big banks taking into the account the recommendations of the International Monetary Fund. These objectives will be backed by 43 billion UAH in 2014-2015. The state is going to save only big banks, namely, with assets of at least 2 % of the banking system. All other banks are exposed to extreme risk.

Conclusions. Thus, the National Bank of Ukraine and the commercial banks constitute Ukraine's modern banking system. Ukraine's banking system has a

two-tier structure, a clear hierarchical subordination and plays an important role in the national economy.

International experience proves the fact that the development of the banking system has a strategic importance for the state as a factor ensuring economic and political sovereignty.

The effective functioning of human capital and high-tech industries, providing quality public housing and meeting consumer needs depend on the competitiveness of the banking system.

To ensure stability and reliability of the banking system under the conditions of political and economic crisis it is necessary to:

- increase the capitalization of banks, which will increase the reserves formed for bad banks, and thus improve the reliability of banks;
- use restrictions in the activities of banks that fail to comply with the plans to increase capital, until the problem is solved.

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