

## **SECTION 14. Banking**

### **FORMS AND TENDENCIES OF PRESENCE OF FOREIGN CAPITAL IN THE BANKING SYSTEM OF UKRAINE**

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Globalization of the international economic system is greatly determined by integration processes in the financial market and banking sector in particular. In many countries of Eastern and Central Europe and also of former Soviet Union the composition and activity of banking institutions defined “direction and speed” of such integration. In different years banking sectors of Czech Republic, Poland, Hungary and other countries became attractive and open to the coming of foreign capital in different investment forms.

Similar processes have concerned the Ukrainian banking system too. Under the liberal macroeconomic and comparative openness of banking policy the national financial market has become one of the first and the most active sphere of the use of foreign capital. No wonder that questions of the presence of foreign capital first raised by world community in 1970-s nowadays become the subject of active scientific investigations more often.

For the purpose of optimization of theoretical approaches to investigation of foreign capital`s influence on the domestic banking system, in the first place it is reasonable to mark out famous forms of foreign capital`s presence (entering) in Ukraine.

The most active realizable forms of presence (entering) of foreign capital in the Ukrainian banking system are:

- direct and indirect participation of non-residents in the own (authorized) capital of banks-residents of Ukraine;
- direct providing loans to the banks of Ukraine by foreign creditors (often parent or associated companies);
- providing loans (investment) to domestic banks by purchasing different financial instruments nominated both in national and foreign currency (bonds, deposit certificates, bills);
- providing financial and insurance guarantees to banks of Ukraine by reliable companies-non-residents.

The above noticed list should be also supplemented with definite but practically “dead” (disapproval in Ukraine) forms:

- opening the subsidiaries of foreign banks;
- mobilization of private savings of non-residents into deposit accounts of Ukrainian banks;
- insurance and reinsurance of bank risks using foreign insurance companies.

The results of retrospective analysis allow pointing out the main factors that define intensity of expansion of foreign capital into the banking system of the country in modern terms.

The most powerful external factors are:

- world globalization of activities and integration of capital;
- saturation of markets with financial resources in progressive countries of the world and countries-direct competitors, including their price parameters;
- intensity of redistribution of bank products market in the “new market countries” (particularly in Central and Eastern Europe).

The internal factors may be considered as follows:

- financial accountability and stability of the bank;
- competitiveness of functioning banks;
- structural unbalance of the banking system of Ukraine;
- price policy of banks and market average level of prices of bank products.

During the last ten years of development of the world financial market there has been a sizeable increase of foreign participation in banking systems. The main reasons named by scientists are: the foreign banks` desire to transform exogenous risks and forming the prerequisites for stable and effective activity in receiving country. Operation of foreign capital in the banking system often becomes more aggressive because of reduction of level of taxation and liberalization of banking legislation in regulation and supervision [1, 2]. The desire to earn higher profits under appropriate level of risk is rather the main factor of attractiveness for foreign capital in the banking system of Ukraine that is considered by many scientists [2].

Official figures indicate the growth of foreign capital in the banking system of Ukraine during 2006-2011. It has grown up from incomplete 20 % in the end of 2005 to almost 42 % as of the beginning of 2012. But, of recent a year and a half this participation declined by 18,5 % and of the midyear of 2013 was almost one third of banking capital (34 %) [3].

The same picture is also observed in realization of other forms of participation of foreign capital in the banking system (interbank crediting, issue of euro bonds).

Thereby, in Ukraine there is a reverse tendency of outflow of foreign capital from the domestic banking system. Problems with bank assets, forced recall of capital by European credit institutions, strengthening the concentration of banking activity by domestic investors, decreasing rating of investment attractiveness of the country and certain companies (including banks) are the new factors of determination of suitability of foreign capital entry into the market of banking services.

In turns, the directions of foreign capital supply have changed. Today the capital of post-soviet countries comes to the banking system of Ukraine more and more actively than of European financial companies.

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