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### **The evolution development of the Ukraine banking system**

Banking system as an object of study should be investigated in the process which is determined by many conditions and factors of external and internal character. Thus, the evolution of the national banking system and banking regulation, as its component, has to exam in case of the dynamics of the main macroeconomic trends. We propose to highlight the following six stages of its development.

**The first stage (1988-1990).** The system of Ukrainian commercial banks within banking system of the Union of Soviet Socialist Republics (USSR) was created. There were 12 commercial and 5 cooperative banks in the Republic at the end of 1989.

**The second stage (1991 – 1994).** The Verkhovna Rada of Ukrainian Soviet Socialist Republic adopted the Law of Ukraine "On Banks and Banking activity" in March 1991 which provides the creation of two-tier banking system. The collapse of the USSR and the declaration of Ukraine an independent sovereign state was the first exam for the national banking system. The National Bank began to re-registration commercial banks in Ukraine, which were registered by the State Bank of USSR. The economic situation of the country was very unstable: the reduction of real GDP by 14.2% in 1993 and 22.9% in 1994 was accompanied by a decrease in wages by 51.5% and 14.6% respectively, while slowing the growth rate of inflation from 10256.0% to 501.0% and money supply from 1928.0% to 667.2%. Small "pocket" banks arose, which earned money just due to hyperinflation processes in the economy. Statistical data from this period showed that at the end of 1991 in Ukraine there were 77 banks, and at the end of 1993 their number was 211.

The National Bank of Ukraine adopted the Resolution "On Approval of the Provision on economic standards of activities regulation of commercial banks" in December 1993 to protect clients' interests and ensure the financial stability of banks. However, imperfect legal framework and lack of effective influence mechanisms on

commercial banks by the NBU impeded the process of becoming the Ukraine banking system.

**The third stage (1995-1996).** The National Bank of Ukraine built up a more clear system of commercial banks regulation against the background of reducing the rate of money supply growth in 1995 compared to 1994 from 667.2% to 215.5%, the consumer price index from 501.0% to 281.7% and for the first time since independence of the state it was observed slowing the long decline of production. The unreadiness of commercial banks large number to the centralized management and strict control by the central bank resulted in their bankruptcy. In 1994 eleven banks were liquidated, and in 1996 forty five banks because of the violation of the banking legislation.

The long-term depression in the country stopped and economic situation improved that led to successful conduct of currency reform in autumn 1996, and putting into turnover the national currency - the hryvnia, that balanced the economic processes in the country and increased interest of foreign investors to the Ukrainian economy. According to the NBU, at the end of this period there were registered 14 foreign banks and representative offices in Ukraine.

**The fourth stage (1997-1999).** Improvement of the regulation, the banking supervision and the control of the National Bank were followed by the global financial and economic crisis, which originated in Southeast Asia (1997) and Russia (1998 p.), that complicated insufficiently stable of Ukraine economic situation. Money supply in circulation increased by 40.5% and the rate of inflation by 19.2% in 1999 compared with 1998, respectively. The dynamics of these indicators significantly exceeded the growth rate of wages, which was only 3.4% in 1999, with its substantial reduction in previous years.

**The fifth stage (2000 - August of 2008).** The National Bank of Ukraine and the Government were actively working to adapt banking laws to the standards and requirements of the European Union, which was caused by the development of globalization processes. Intensive development of the banking system in Ukraine was due to the stability of prices, wages, the efficiency increase of production, the

decrease of unemployment. This period can be characterized by the following modifications: before 2002 the liquidation of noncompetitive banks was carried out; from 2003 to 2007 there was the rapid growth of the total number of banks and banks with a license for banking operations in the latter period there were 198 and 175 respectively; there was the interest growth of international organizations to the banking sector of Ukraine, as a result the share of foreign capital in the authorized capital of banks increased from 13.3% to 35%; there was a steady tendency to rise the assets, obligations, equity capital bank, increasing profitability, the improvement of assets and liabilities quality, growth credit and investment activity and profit of commercial banks.

**The sixth stage (September of 2008 - present).** The emergence of problems on the U.S. mortgage market led to the international financial crisis that had negatively affected both the economic system and the banking system of Ukraine. In late 2010 the share of foreign capital in the authorized capital of banks was 40.4%, reflecting the dependence of domestic banks on foreign ones. During this time when there was a increment rate reduction of real GDP by 2.3%, the decrease in real wages by 3% and the index of industrial production by 5.2%, raising inflation by 22.3%, resource potential of banking institutions began to decline and the share of problem loans increased that result in big losses amounting 38.4 billion in 2009 and 13.0 billion in 2010. The main efforts of the regulatory authorities were to reduce the share of problem loans in the banking sector by the way of their sales and restructuring, because the share of overdue credit its debt increased by 366.7% over the period.

At this stage activities of the National Bank focused on ensuring the banking stability and reliability, protection of depositors and recovery public confidence.

So, depending on the dynamics of economic growth in the evolution of the Ukraine banking system three blocks can be distinguished, each of them covers one or more stages, which define a significant change in the quantitative and qualitative characteristics of the system: the first - formation (the first four stages), the second - stability (the fifth stage) and the third - crisis (the sixth stage).