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COMPETITION ON THE BANKING SERVICES MARKET OF UKRAINE: MAIN TRENDS OF THE POST-CRISIS PERIOD

The determination of the competitive position of a certain market according to theoretical models (pure competition, monopolistic competition, oligopoly, monopoly) is one of the most complex issues of the economic theory, because market conditions are affected by various economic, social and political factors.

The research of the competitive level of the domestic market of banking services by using a logical method involves the analysis of banks, types of banking services, the level of price control, market entry conditions, the presence of non-price competition. During the last decade the number of banks operating in Ukraine has varied from 165 to 185 institutions, which is a very significant factor on the scale of the national economy. Banking services offered on the market are mostly standardized or characterized by insignificant differentiation of their parameters. The control over prices by some participants of the banking market is virtually absent (sometimes the biggest banks exercise a little control in certain segments of the banking market, but it has a temporary character and does not influence the general price dynamics in any considerable way). Therefore, according to the above-mentioned parameters the domestic market of banking services approximates the theoretical model of pure competition.

On the other hand, there are high barriers for new banks to enter the market. To set up a new bank a number of requirements of the National Bank of Ukraine must be met: the minimum amount of capital, the disclosure of information to potential owners, the formation of higher managerial organs consisting of managers with impeccable business reputation, the creation of material and technical base, etc. Similar requirements exist for non-residents founding their bank branches in Ukraine. Banks that operate on the banking market of Ukraine actively use non-price methods of competition: advertising campaigns and actions, management of distribution channels, etc. According to the latter two factors the Ukrainian market of banking services looks similar to the market of monopolistic competition. In this way, we can argue that the model of the market's functioning occupies an intermediate position between the market of pure competition and the market of monopolistic competition.

In addition, the level of competition on the market is examined on the basis of the parameter of “relative margin” or the Lerner index, which is calculated as the ratio of difference between the price and marginal cost to the price of services. The greater the index value, the greater level of monopoly power the bank has on the market. The assessment of the “relative margin” in the banking market of Ukraine can be carried out by analyzing the net interest margin (in 2006–2011 it varied within the range of 5.03–6.21 %) and the net spread (in the period 2006–2011 it was 4.51–5.76 %). Therefore, the level of bank interest margins, which are the most important component of the banking activities, is small in comparison with other sectors of the economy and characterizes the domestic banking market as fairly competitive.

In accordance with the Herfindahl-Hirschman Index the analysis of concentration on the banking market of Ukraine involves the evaluation of the market share of bank’s assets in the total volume of the banking system assets. Within 2009–2011 the value of this index increased progressively from 360 in 2009 to 430 at the beginning of the year 2012. This trend shows the gradual increase in the level of monopolization of the banking market caused mainly by the decline in the market share of those banks, which had lost the trust of customers during the crisis and the growth of the market share of banks that operated stably and effectively during the crisis. However, given the absolute values of this index it is possible to conclude that the level of competition on the banking market of Ukraine remains high (the market is considered highly monopolized if this index exceeds 1800).

In this context it is interesting to measure the market power of banks on the Ukrainian banking market. It is believed that the market has a high level of concentration if its four biggest banks control over 60 % of the market whereas on the markets with low levels of concentration the four biggest banks provide no more than 20 % of all services. As of 01.01.2012 the market’s leaders are the joint-stock commercial bank “PrivatBank” (market share – 13.76 %), the joint-stock company “Ukreximbank” (market share – 7.12 %), the public joint-stock company State Savings Bank of Ukraine “Oschadbank” (market share – 7.02 %), the joint-stock company “Raiffeisen Bank Aval” (market share – 4.87 %). Together these leading banks control almost a third (32.78 %) of the banking services market in Ukraine. In the last three years the market share controlled by the four leading banks has increased by nearly 5 %. So, according to this criterion the domestic market is not concentrated. It should be noted that the market share of the four leading banks increases due to the accelerating growth of assets of the joint-stock commercial bank “PrivatBank” and the dynamic

growth of the state banks' financial performance. On the other hand, during and after the crisis the market share of the joint-stock company "Raiffeisen Bank Aval" shrank almost 2 times. Therefore, among the leaders there is only one bank with foreign capital, which is gradually losing its market position.

The market of banking services in Ukraine is characterized by fairly high levels of competition. A small reduction of the competition level in the post-crisis period was conditioned mainly by significant increases of the state participation in banks' capital and temporary redistribution of the customer base. In the future the levels of competition on the market will be determined by the strategy of regulatory measures of the National Bank of Ukraine, the dynamics of macroeconomic processes and the activity of foreign investors.

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THE EURO CRISIS: WHO IS THE WORSE GUY – GERMANY OR GREECE?

The crisis that started in Greece culminated into a crisis of the Eurozone as a whole. How did we get into this mess?

Generally, there are three types of macroeconomic stabilisation policies facilitating instruments to react against economic crises, which are the fiscal policy exerted by (national) governments, the monetary policy under the responsibility of central banks and the wage policy, normally negotiated between trade unions and employer associations.

In the past, by many economists has been stressed that one mayor error in the construction of the Eurozone is the striking imbalance between a fully centralised monetary policy and a nearly complete perpetuation of the other two mayor macroeconomic policies (fiscal policy and wage policy) at national levels.

With this in mind, one can additionally stress the point that a monetary union (like the Eurozone) is basically an agreement of all member states on a target inflation rate. This has several implications. With the waiving of national monetary policies the member states implicitly accept a common inflation target. This is inconsistent with different wage and price developments between the member states. As wages are the most important factor for unit labour costs and the latter the decisive factor for prices, there is a need of more or less uniform wage policies within the member states of a monetary union.

Looking into the empirical data one can observe easily a huge gap in unit labour costs and price developments between the Eurozone member