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THE REASONS OF NECESSITY TO SUPPORT THE LIQUIDITY OF BANKS IN UKRAINE AND WAYS OF ITS IMPLEMENTATION

Intensive movement of financial streams and the relative ease of raising funds in the banking sector stimulated the development of system of living at the expense of the large amounts of external borrowings.

Following the situation today, one can't argue that external loans and commitments have a significant impact on liquidity of the banking system. By 01.01.2009, banking assets, liabilities and capital increased by 50, 52,4, 73,7 % (in nominal rates). According to the National Bank, our banking system has total foreign debt of \$ 39,424 bn.; in fact, foreign lenders wanted to see increasing banking capitalization, to be sure that the banking system can return the debt. This has served as one of the reasons for growth of total bank capital in the last year by 73,7 %, but even with such level of growth debt overcomes in 2,5 times the capital.

Analysts of IC Phoenix Capital, believe that in 2009 the total amount of debt payments to foreign bank loans (including loans of foreign parent companies to Ukrainian daughters) will constitute \$ 16 bn., when only \$ 3,236 bn. were announced by banks. We noted that the banking system needs liquidity support due to three main reasons:

1) internal sources of attracting finances to the bank circulation are weak. So according to the National Bank data there is rapid withdrawal of funds from bank deposits during the past 4 months. Even despite the moratorium of the National Bank, as of March 1, the amount of liabilities of banks decreased by 6 % (55,6 bn. UAH). But the proposal of transferring money from time deposits to the category of transfer payments (the so-called contribution "active money") significantly reduced the loss of liquidity by banks;

2) against the backdrop of recession the population becomes insolvent. The loans to the population in total loan portfolio last year were 34 %, half of which is consumer and was issued during the boom in mortgage lending, which will not return the loan in case of property condemnation (disposal). According to collectors, bad loans for consumer loans constitute 30 %;

3) there is dollar deficit in the Ukrainian monetary market, which complicates the search of foreign currency for repaying debts and, in our opinion, probably will lead to increasing of instability in the foreign exchange market and the rapid spending of foreign currency reserves of the National Bank (which during January and February decreased by 16,1 % to the level of \$ 26,459 trillion) in order to

support UAH rate on the interbank market and refinancing problematic financial institutions. Also a use of UAH issuing loan from the National Bank can cause the acceleration of an inflation rate (the refinance funds only for October, November and December was 92,8 bn. UAH. That is 18 % of M3).

As an implementation of the following actions, in our opinion, all banks should be separated into three categories. The first will include banks with foreign capital (53), which will be supported by borrowings from the parent structures, the second – small banks, the third – to be 100 % supported by the NBU. After analyzing the practices of liquidity support of banks in crisis, we have several mechanisms:

- 1) implement law creating a system that would consist of the insurance fund, for example: SFSA (U.S.) or Arco (in Russia); and two corporations: financial and trust that would perform the role of regulator in the market. Also it would be important to initiate the establishment of the National Regulation Organization in consumer and mortgage loans;
- 2) asset securitization. This instrument needs confidence from the side of investors, what is almost impossible because of provocation in the media and negative assessments of international rating agencies;
- 3) bank consolidation. This method will allow banks to concentrate capital, but instead, each of them will lose the independence of action and the same may lead to reducing the range of banking services.

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