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# **ПРОБЛЕМИ І ПЕРСПЕКТИВИ РОЗВИТКУ ФІНАНСОВО-КРЕДИТНОЇ СИСТЕМИ УКРАЇНИ**

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## **RESTORING TRUST TO UKRAINE'S BANKING SECTOR**

Trust is a core feature of any banking business. Without it commercial banks as well as central banks could not be successful in achieving their goals. From our point of view there are three main elements of the trust to bank: transparency, legislation quality and empirical credibility. The transparency should be treated as precondition of trust. The legislation quality expresses the state effectiveness in this matter. The empirical credibility shows us a real level of ordinary people trust to banks in Ukraine and in other words it reflects a grade of implementation of the two trust elements were mentioned above. Nowadays transparency has become a key feature of banking business and monetary policy making. That is why commercial and central banks worldwide consider transparency as very important factor of their success.

On the one hand, a number of empirical studies show that there is a continuous process improvement of commercial and central banks transparency level in Ukraine. Only temporary loss of banks transparency during the last worldwide financial crisis was observed. Furthermore quality of national legislation in aspect of maintaining trust to the banks is satisfactory. This conclusion is based on positive experts estimation of the two main laws (The Law of Ukraine On Banks and Banking and The Law of Ukraine on the National Bank of Ukraine) that contain internationally recognized approaches to regulation of banking business and central bank functioning. Full texts of

these laws in English are available on the official website of the National Bank of Ukraine (hereinafter – NBU).

On the other hand, it is obvious that there is low level of trust to banks in Ukraine. According to surveys conducted by the Center for Social Monitoring and the Institute of Sociological Studies, about 70 percent of citizens do not trust banks now [1]. The GfK estimation<sup>3</sup> is even worse: only 10 percent among Ukrainian citizens trusted to banks in September 2016; in previous periods this level was: March 2015 – 11,6%, March 2016 – 11,9%. Thus, we have a large deviation between transparency and legislation quality from the one side and an empirical credibility level from the other side. Thereby, the aim of this work is to conduct a brief analyze of the causes of distrust to Ukrainian banks and find out directions of the trust recovering.

Many researchers analyze matters of trust in the economic relations between banks and their clients. Most of them investigate factors of client's trust to wide range of bank products and technologies. There are several articles which closely related with our study because they directed on researching trust to bank as a specialized financial institution. Among them there is an article published by Knell and Stix [2] in which the causes of trust in Austrian banks declining during the global financial crisis were studied and assessment of the factors which determine the level of trust in Banks was made. Mosch and Prast (2008) provide evidence regarding trust in banks for the Dutch financial sector. Based on surveys over the period 2003-2006, the authors find a significant positive link between confidence in the economy and trust in the country's institutions. Spanish researchers analyze the extent to which bank customers' perceptions of several bank attributes fosters trust in banks [3]. Also they study in what degree can a

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<sup>3</sup> Data were obtained from the GfK staff as response on the author's request through the official website: <http://www.gfk.com/uk-ua/>

potential loss of trust in banks due to a financial crisis be offset by improvements in bank customers' perceptions of such attributes.

We suppose that question under consideration could be precisely investigated using normative and positive approaches to analysis. Normative methods of economic express normative judgments about the outcome of the economy or goals of public policy (answering the question "what ought to be"). On the other hand, positive analysis focuses on facts and explanation of economic phenomena by testing of economics theories (answering the question "what is").

Our normative analysis is based on the brief overview of the main documents in which strategic directions of the Ukrainian banking system development (including monetary policy matters) were declared: Memorandum of Cooperation with the International Monetary Fund; Comprehensive Program of the Ukraine Financial Sector Development Until 2020; National Bank of Ukraine Monetary Policy Guidelines for 2016 – 2020 years.

Our positive analysis focuses on some quantitative results concerning restoring trust to banks in Ukraine. On the first stage we investigate ongoing general trends of Ukrainian banking system development using key statistic data, Financial Stability Report, Ukrainian Lending Survey and Business Outlook Survey. These data were collected and Surveys were conducted by the National Bank of Ukraine. On the second stage of positive analysis we consider main results of our previous investigations that could give some evidence on question under consideration: Approaches to the development of the explicit monetary rules; The credit information impact on the robustness of banks; Bank transparency issues.

For example, in terms of investigation bank transparency issues, we made a conclusion that during the last years the National Bank of Ukraine has implemented a number of

projects that will contribute to a significant increase of its transparency level. These reforms also will be a reliable basis to ensure the necessary level of monetary policy efficiency in the context of achieving the inflation targets. This conclusion is confirmed by the calculation of transparency index (Figure 1) which compares our results [4] with results of N. Dincer and B. Eichengreen (2013).

As a result of our investigations we have formulated several conclusions. On the one hand, analysis of the main documents gives evidence that from the strategic point of view our politicians and representatives of financial regulators made declarations about a strong support of the further developments towards enhancing trust to Ukrainian banks. On the other hand, the quantitative results shown in this paper reflect complicated and hardly predictable economic and financial development of our country. Without a stable ongoing process of improvement of macroeconomic situation which accompanied by increasing transparency standards, all policy declarations about restoring trust to banks will not reflect a real social and economic situation.

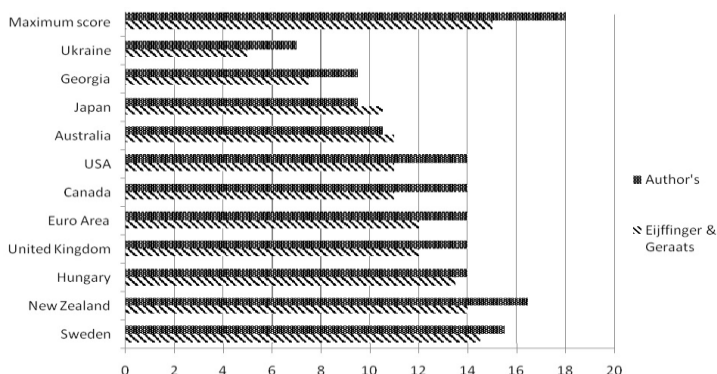


Figure 1 Comparison of N. Dincer and B. Eichengreen results and authors' results

Source: compiled by authors [4]

Several practical advices also could be done. It is wisely for NBU staff to implement rule-based approach (explicit monetary rules) for monetary policy to replace purely discretion decision making that very subjective from the point of view of outsiders. Also it is necessary to make active efforts on improving the effectiveness of credit bureaus in Ukraine by establishing a public credit registry.

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