

Ministry of Education and Science of Ukraine
Sumy State University
Academic and Research Institute
of Business, Economics and Management

SOCIO-ECONOMIC CHALLENGES

Proceedings
of the International Scientific and Practical Conference

(Sumy, November 14-15, 2022)



Sumy
Sumy State University
2022

330.3:005(063)

S62

Editor-in-Chief

Prof., Dr. *Vasilyeva Tetyana*, Director of Academic and Research Institute of Business, Economics and Management, Sumy State University

*Approved by the Academic Council of Sumy State University
(protocol № 5, 17 November 2022)*

S62 **Socio-Economic Challenges: Proceedings of the International Scientific and Practical Conference, Sumy, November 14–15, 2022 / edited by Prof., Dr. Vasilyeva Tetyana. – Sumy : Sumy State University, 2022. – 183 p.**

Proceedings of the International Scientific and Practical Conference "Socio-Economic Challenges" are devoted to finding a systemic solution to multidisciplinary problems in the field of modern development, management, administration of various systems, corporate social responsibility, innovation management in various fields of environmental management.

For scientists, scientists, students, graduate students, representatives of business and public organizations and higher education institutions and a wide range of readers.

330.3:005(063)

© Sumy State University, 2022

STRENGTHENING THE REQUIREMENTS FOR BANK CAPITALIZATION AS A CHALLENGE FOR THE COUNTRY'S ECONOMY

Iryna Didenko, PhD of

*Economics, Senior Lecturer, Department of Economic Cybernetics, Sumy State
University*

Alina Yefimenko, PhD student of

Economics, Department of Economic Cybernetics, Sumy State University, Ukraine

The issue of maintaining economic stability in the country is quite important and relevant at any time, and especially in the conditions of the global pandemic of COVID-19, war and other socio-political challenges. It is necessary to monitor various spheres of the state's life, identify weaknesses and develop appropriate crisis reform plans at this time.

First, when developing state economic policy, it is necessary to take into account the influence of the following factors: the quantity and quality of natural and labor resources, the amount of the country's capital and the availability of technologies. The presence and effective combination of these factors will contribute to the country's economic growth. It is worth analyzing in more detail the importance of the labor, capital and technological components of economic policy, which is especially relevant in the conditions of war.

Despite the automation of many processes, people do the maintenance of information systems. Without sufficient labor resources, these processes cannot be efficient enough. Since the beginning of the war, more than 7.7 million people left, 2.559 million returned (UKRINFORM; Obidjon, Zakharkin, Zakharkina, 2017; Hoxhaj, Muharremi, Nushi, 2022). Among the migrants, specialists in the financial, banking, and service spheres constituted a significant share. In the first days of the war after February 24, 2022, 10th part of bank employees remained on the ground, and this especially applied to the operational centers located in Kyiv. This problem was also compounded by the mass withdrawal of cash, which destabilized the banking system. Thus, the economic policy of Ukraine was influenced by the labor factor and the capital factor, and then the technological factor. Figure 1 shows a structural and logical diagram of the influence of the main factors on the economy of Ukraine since the beginning of the war.

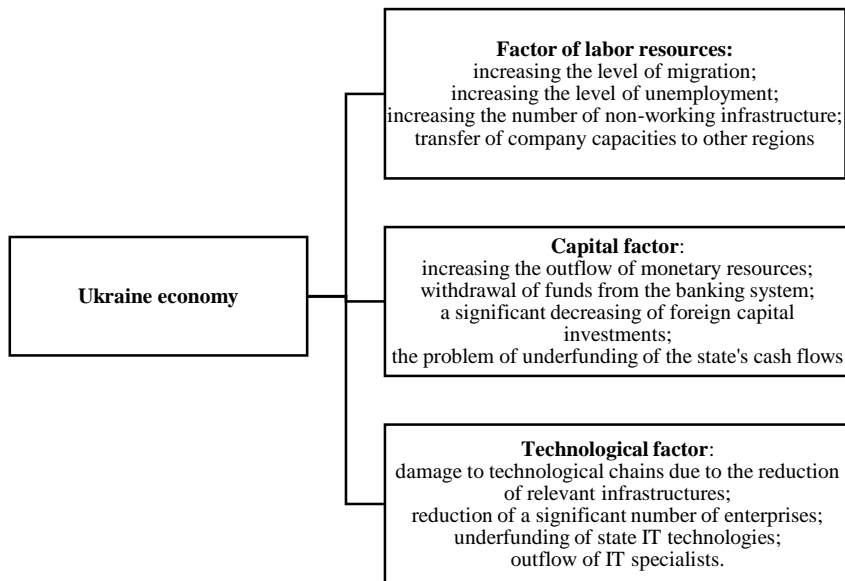


Figure 1. Structural and logical diagram of the influence of the main factors on the Ukrainian economy since the beginning of the war

Source: compiled by the author on the basis of Hayetska, 2019; Kozlovskiy, Mazur, 2017; Tiutinyk, Mazurenko, 2021; Demkiv, 2018; Goncharenko, 2020; Karaye, Ahmad-Zaluki, Badru, 2022; Melnyk, Kuchkin, Blyznyukov, 2022; Zarutska, Pavlova & Sinyuk, 2018)

Referring to the above, it can be concluded that a rational combination of labor, capital and technological factors contributes to the economic stability of the state. Thus, it is necessary to single out the main problems of the specified economic components and develop appropriate anti-crisis measures to reduce the impact of negative economic effects.

Since an important place among the factors is capital, we should consider its features in more detail. Among the problems of the capital factor of economic stability, which Ukraine faced, were an increase in the outflow of monetary resources, the withdrawal of funds directly from the banking sector, and the problem of underfinancing of the state's cash flows (Pimonenko, Radchenko, Palienko, 2017; Kotenko, Bohnhardt, 2021; Samoilikova, Kunev, 2020).

The main economic system that can solve these problems is the banking system. It ensures an efficient and uninterrupted flow of funds and is responsible for the financial maintenance of state payments.

At the current stage of economic development, one of the main problems of the banking system is maintaining its financial stability and reliability (Rizk, 2022). This

is the basis for further performance by banks of their functions of providing the country's economy with a sufficient amount of resources.

Capitalization is the main factor that has the ability to positively influence the economic processes of the state, expand the range of banking services, improve their quality, preventing significant risks and at the same time maintaining the stability of the system. Therefore, we will consider the main requirements for bank capitalization as challenges for the economy of Ukraine.

According to international standards, from January 1, 2022, banks must keep capital to cover not only credit, but also operational risks. The importance of capital requirements to cover operational risk is only increasing given the new opportunities for fraud due to the shift of business online. In order to protect customers, banks must also develop appropriate policies and operational risk management systems, which is especially relevant in times of pandemic and war (National Bank of Ukraine).

Figure 2 shows the changes in capitalization requirements of the banking system and the corresponding economic effects.

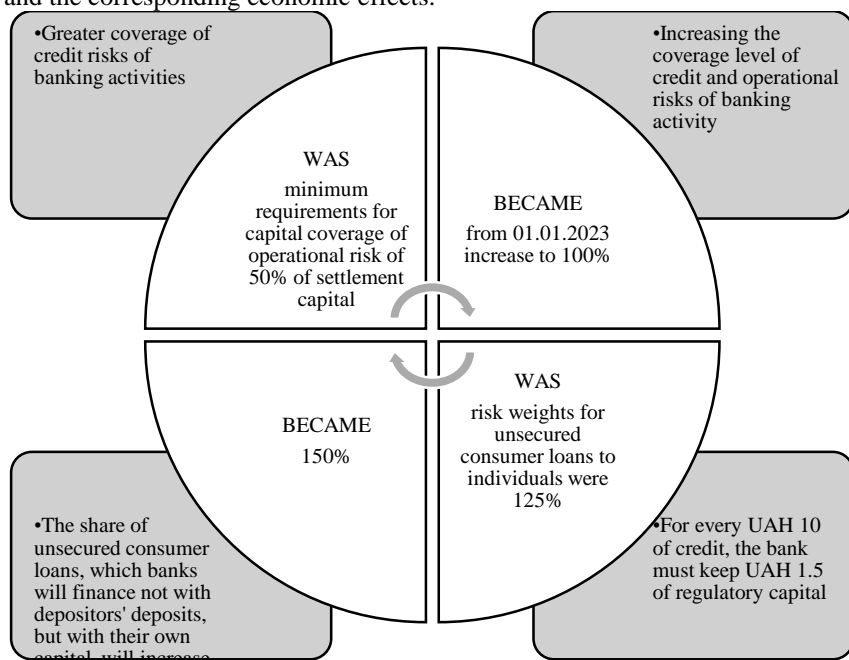


Figure 2. Scheme of increasing the requirements for bank capitalization as one of the components of the capital factor of the country's economic stability

Source: created by the author based on data from the National Bank of Ukraine; Bakari, Idi & Ibrahim, 2018; Paskevicius, Keliuotyte-Staniulieniene, 2018)

It is worth noting that the two-stage increase in risk weights during 2021 from 100% to 150% created an additional capital reserve to cover possible losses on consumer unsecured loans in the event of adverse conditions, to which we can include the COVID-19 pandemic (from 2019) and the beginning full-scale war in Ukraine (from February 24, 2022).

Also, the next step is to increase the risk weights for domestic state loan bonds in foreign currency to 50% with a further increase to 100% from July 1, 2022. According to the Basel standards, government securities in foreign currency are assigned risk weights depending on the international rating. For government bonds of the Ukrainian government in foreign currency, the risk weight should be 100% (Taraniuk, D'yakonova, Taraniuk, Qiu, 2020; Minchenko, Demchuk, 2021). In order to gradually bring domestic requirements into line with international standards, the risk weights are being increased gradually and only for those securities that banks buy from April 1, 2021. This design enables banks to plan their investment policy and positively influence the capital factor of Ukraine's economic stability (Vasylieva, Harust, Vinnichenko, Vysochyna, 2018; Masharsky, Azarenkova, Oryekhova, Yavorsky, 2018).

Thus, the banking system is the financial basis of the economic policy of any country. This is a collection of various types of national banks and credit institutions operating within the general monetary mechanism. Having identified the main problems of the capital factor of a stable economy of Ukraine, it can be concluded that the significant outflow of monetary resources and insufficient financing of state payments are the spheres of responsibility of the banking sector (Serpeninova, Makarenko, Plastun, Babko, Gasimova, 2020). Therefore, strengthening the requirements for the specified system will contribute to the effective regulation of cash flows and the rational conduct of financial transactions. The increase in requirements refers to capitalization as the main indicator of the financial stability of the banking system.

Among the new challenges regarding bank capitalization, the following are highlighted:

- increasing the minimum requirements for capital coverage of operational risk from 50% to 100% of settlement capital;
- increasing the risk weights for unsecured consumer loans to individuals up to 150%;
- increasing the risk weights for domestic state loan bonds in foreign currency to 50% with further growth to 100% from July 1, 2022.

Implementation of the specified requirements in the activity of Ukrainian banks will contribute to the financial stabilization of both a specific bank and the banking system as a whole, which will have a positive effect on the national economy.

References

1. More than 7.7 million people left Ukraine since the beginning of the war - according to the Ministry of Internal Affairs. *UKRAINFOURM*. URL: <https://www.ukrinform.ua/rubric-society/3510895-z-ukraini-vid-pocatku-vijni-viihali-ponad-77-miljona-ludej-dani-mvs.html>.
2. Khayetska, O.P. (2019). Peculiarities of economic growth in Ukraine and the world. *Electronic scientific publication " Efektyvna ekonomika "*. No. 10. <https://doi.org/10.32702/2307-2105-2019.10.41>
3. Kozlovsky, S.V., Mazur, G.F. (2017). Ensuring the stability of the modern economic system is the basis of the economic development of the state. *Economics. Investments: practice and experience*. No. 1. P. 5-12. http://www.investplan.com.ua/pdf/1_2017/3.pdf.
4. The National Bank is strengthening the capital requirements of banks from January 1, 2022. *National Bank of Ukraine*. URL: <https://bank.gov.ua/ua/news/all/natsionalniy-bank-posilyuye-vimogi-do-kapitalu-bankiv-z-01-sichnya-2022-roku>.
5. Obidjon, G. Zakharkin, O., Zakharkina, L. (2017). Research of innovation activity influence on return of stocks in industrial enterprises. *SocioEconomic Challenges*, 1(2), 80-102. [http://doi.org/10.21272/sec.1\(2\).80-102.2017](http://doi.org/10.21272/sec.1(2).80-102.2017)
6. Hoxhaj, M., Muharremi, O., Nushi, E. (2022). Analyses Of Demographic Changes, Labor Market Trends, And Challenges In Albania. *SocioEconomic Challenges*, 6(2), 29-41. [https://doi.org/10.21272/sec.6\(2\).29-41.2022](https://doi.org/10.21272/sec.6(2).29-41.2022)
7. Tiutinyk, I., Mazurenko, O. (2021). The Theory Of International Tax Competition: Comparative Analysis. *SocioEconomic Challenges*, 5(3), 134-138. [https://doi.org/10.21272/sec.5\(3\).134-138.2021](https://doi.org/10.21272/sec.5(3).134-138.2021)
8. Demkiv, Yu.M. (2018). The ISO 9001 International Standards in a System of the Banking Services Quality Management. *Business Ethics and Leadership*, 2(3), 94-102. [http://doi.org/10.21272/bel.2\(3\).94-102.2018](http://doi.org/10.21272/bel.2(3).94-102.2018)
9. Pimonenko, T., Radchenko, O., Palienko, M. (2017). Efficiency of marketing communications in banks. *Business Ethics and Leadership*, 1(2), 55-61. [http://doi.org/10.21272/bel.1\(2\).55-61.2017](http://doi.org/10.21272/bel.1(2).55-61.2017)
10. Goncharenko, T. (2020). From Business Modelling to the Leadership and Innovation in Business: Bibliometric Analysis (Banking as a Case). *Business Ethics and Leadership*, 4(1), 113-125. [http://doi.org/10.21272/bel.4\(1\).113-125.2020](http://doi.org/10.21272/bel.4(1).113-125.2020)
11. Rizk, S. (2022). Efficiency in the MENA banking industry, the stochastic frontier approach (SFA). *Financial Markets, Institutions and Risks*, 6(2), 56-59. [https://doi.org/10.21272/fmir.6\(2\).56-59.2022](https://doi.org/10.21272/fmir.6(2).56-59.2022)
12. Karaye, A.I., Ahmad-Zaluki, N.A., Badru, B.O. (2022). The Effect of Credit Committee Characteristics on Bank Asset Quality in Nigeria. *Financial Markets, Institutions and Risks*, 6(2), 60-74. [https://doi.org/10.21272/fmir.6\(2\).60-74.2022](https://doi.org/10.21272/fmir.6(2).60-74.2022)

13. Melnyk, M., Kuchkin, M., Blyznyukov, A. (2022). Commercial Banks: Traditional Banking Models Vs. Fintechs Solutions. *Financial Markets, Institutions and Risks*, 6(2), 122-129. [https://doi.org/10.21272/fmir.6\(2\).122-129.2022](https://doi.org/10.21272/fmir.6(2).122-129.2022)
14. Zarutskaya, E., Pavlova, T., & Sinyuk, A. (2018). Structural-functional analysis as innovation in public governance (case of banking supervision). *Marketing and Management of Innovations*, 4, 349-360. <http://doi.org/10.21272/mmi.2018.4-30>
15. Bakari, I. H., Idi, A., & Ibrahim, Y. (2018). Innovation Determinants of Financial Inclusion in Top Ten African Countries: a System GMM Approach. *Marketing and Management of Innovations*, 4, 98-106. <http://doi.org/10.21272/mmi.2018.4-09>
16. Paskevicius, A., & Keliuotyte-Staniulieniene, G. (2018). The evaluation of the impact of financial technologies innovations on CEECs capital markets. *Marketing and Management of Innovations*, 3, 241-252. <http://doi.org/10.21272/mmi.2018.3-21>
17. Vasylieva, T., Harust, Yu., Vinnichenko, N., & Vysochyna, A. (2018). Optimization of the financial decentralization level as an instrument for the country's innovative economic development regulation. *Marketing and Management of Innovations*, 4, 381- 390. <http://doi.org/10.21272/mmi.2018.4-33>
18. Masharsky, A., Azarenkova, G., Oryekhova, K., & Yavorsky, S. (2018). Anti-crisis financial management on energy enterprises as a precondition of innovative conversion of the energy industry: case of Ukraine. *Marketing and Management of Innovations*, 3, 345-354. <http://doi.org/10.21272/mmi.2018.3-31>
19. Serpeninova, Yu., Makarenko, I., Plastun, A., Babko, A., & Gasimova, G. (2020). Mapping of the Responsible Investments Instruments in SDG 3 «Good Health and Well-Being» Financing: EU and US experience. *Health Economics and Management Review*, 1, 106-115. <http://doi.org/10.21272/hem.2020.1-10>
20. Kotenko, N., & Bohnhardt, V. (2021). Digital Health Projects Financing: Challenges and Opportunities. *Health Economics and Management Review*, 1, 100-107. <http://doi.org/10.21272/hem.2021.1-10>
21. Samoilkova, A., & Kunev, R. (2020). The Impact of Health Care Financing on the Economic Growth: EU Countries Analysis. *Health Economics and Management Review*, 2, 24-32. <http://doi.org/10.21272/hem.2020.2-03>
22. Taraniuk, L., D'yakonova, I., Taraniuk, K., & Qiu, H. (2020). Basic Financing Principles of Anti-Covid Measures: The Case of the Bank for International Settlements. *Health Economics and Management Review*, 2, 43-50. <http://doi.org/10.21272/hem.2020.2-05>
23. Minchenko, M., & Demchuk, K. (2021). Pandemic Consequences and Crisis Recovery Scenarios. *Health Economics and Management Review*, 1, 67-75. <http://doi.org/10.21272/hem.2021.1-07>