

FINANCE, INSURANCE AND EXCHANGE BUSINESS: INNOVATION AND INVESTMENT STRATEGIES

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ADJUSTMENT OF UKRAINIAN BANKING SYSTEM TO EUROPEAN NORMS AND INTERNATIONAL STANDARDS: BENEFITS AND PROSPECTS

Banking system comprises banks interacting within the country. It is an integral part of the financial system and the national economy as a whole. The banking system mechanism comprises distribution of financial resources and funds, their mobilization and use in the economic cycle, granting loans to businesses and ensuring financial stability. Political and military instability, high inflation and general economic destabilization have negatively affected the banking sector and the performance of banks operating in Ukraine. The activities of the National Bank of Ukraine (NBU) related to liquidation of insolvent banks and banks that violated Ukrainian legislation has had a positive impact on the banking system transparency. However, excessive reduction of participants in the banking sector can lead to deterioration of the competitive environment and conditions for the banking products provision [1].

Adjustment to European norms and standards has affected the changes in the banking system. In recent years, the number of banks has decreased from 178 in 2014 to 75 in 2019, i.e. almost 2.4 times. As of October 1, 2020, there are 74 commercial banks in Ukraine,

33 of them are foreign capital banks, including 21 banks with 100% foreign capital. The number of branches has decreased by 3.8% and makes 9,128. Oschadbank with its 2,980 divisions remains the leader in the number of branches, and Privat Bank ranks second (2,108 divisions). Raiffeisen Bank Aval also comprises a large number of divisions – 504, and Ukrsibbank – 315 divisions [2].

Top rating of Ukrainian and foreign banks: as of September 2020 [6]: 1. Raiffeisen Bank Aval (Austria). 2. Credit Agricole (Credit Agricole, France). 3. Ukrsibbank (BNP Paribas Group, France). 4. Citibank Ukraine (Citigroup, USA). 5. ING Bank Ukraine (ING Group, the Netherlands). 6. Oschadbank * (national). 7. ProCredit Bank (Germany). 8. Kredobank (PKO Bank Polska, Poland). 9. PrivatBank (statel) 10. Ukreximbank * (state).

During the first quarter of 2020, the banking system of Ukraine received UAH 15.97 billion profit, which is 23.8% more than for the same period of 2019 (UAH 12.9 billion). In 2019, the profit of the banking system made UAH 59.635 billion and increased by 2.7 times as compared to 2018. Profit of state-owned banks increased by 2.4 times and made UAH 35.202 billion, banks with foreign capital profit increased by 5.1 times (UAH 18.51 billion), profit of private capital banks increased by 1.4 times (UAH 5.918 billion). 69 out of 75 banks operating in Ukraine were profitable. Table 1 data represent an increase of banks assets which indicates their capacity and stability increase.

Table 1

Assets of Ukrainian banks 2016–2020

| Date | Assets (total) | Reserves on active banking operations |
|--------------|-----------------------|----------------------------------------------|
| by 1.01.2016 | 1,254,385 | 321,303 |
| by 1.01.2017 | 1,256,299 | 484,383 |
| by 1.01.2018 | 1,336,358 | 516,985 |
| by 1.01.2019 | 1,360,764 | 55,587 |

Source: [2]

In 2019, household deposits in the national currency increased by 18.3% or UAH 49.1 billion while in foreign currency they decreased by 2.6% or UAH 6.1 million due to the strengthening of the

hryvnia. The increase in deposits amounted to 8.6% (+ UAH 43 billion) and made UAH 544.7 billion. Deposits of legal entities on April 1, 2020 amounted to UAH 516 billion, deposits of individuals – UAH 610.5 billion, deposits of non-banking financial companies – UAH 28.2 billion.

The volume of default loans in the loan portfolio amounts UAH 215 billion (95%) in Privat-Bank, UAH 86 billion (65%) in Oschadbank, UAH 70 billion (53%) in Ukrsibbank, UAH 6 billion (14%) in Ukrgasbank. The total amount of NPLs in the banking system is UAH 581 billion (portfolio share – 51%). Of this amount, state-owned banks accounted for UAH 415 billion (71% of the total NPL) [2]. The increase in loans to individuals increased by 4.7% (UAH 9.3 billion) to UAH 205.3 billion in 2019. At the same time, loans in the national currency increased by 21.1% (UAH 32.6 billion), in foreign currency they decreased by 38.4% (UAH 23.3 billion). The weighted average interest rate on loans in the national currency of households increased to 35.8% (33.1% in December 2018). In 2019, the volume of default loans to the population in the loan portfolio of Ukreximbank amounted UAH 2 billion (89%), Ukrgasbank – UAH 4 billion (56%), Oschadbank – UAH 5 billion (45%), PrivatBank – UAH 27 billion (38%) [2].

In 2019, Ukraine's banking system began to gradually revive from post-crisis stagnation. The system has been gradually restoring the lost resource, primarily due to hryvnia deposits. During 2020, interest rates decreased to the minimum historical level and resulted in a low amount of banks profit. Also, changes in the regulatory framework and bringing it in line with European standards, as well as the competition from non-banking institutions contributed to the profit decrease. These challenges are forcing banks to reconsider their business model and focus on improving service levels rather than use traditional sources of income (interest margin). Problems that negatively affect the development of the country's banking system include insignificant growth of the national economy, state budget deficit, insufficient level of credit relations of banks with the real sector of the economy, public distrust of certain banking institutions,

the risk of debtor insolvency, lack of sufficient regulatory framework necessary to protect the rights of depositors and creditors etc.

Thus, the problems that have arisen in the banking system of Ukraine can be overcome by means of attracting additional capital, extending the banking services system, improving the quality and competitiveness of banking institutions, and implementation of appropriate measures to ensure compliance of national banks with international corporate governance standards. Other levers include increasing of responsibility of managers and owners for the work safety level, improving the system of internal control in banks, mechanisms of bank mergers and liquidation, national currency stabilization, non-cash payments expansion. The implementation of these measures will contribute to the development of the banking system and the economy of Ukraine. In Ukraine, the issues of improving the efficiency of credit policy for the development of agricultural enterprises require a comprehensive scientific approach. Modern bank lending has taken a few steps back and will soon lose its dominance in short-term financing of agriculture. This niche will be occupied by shadow financing, which will have a very negative impact on the development of the industry as a whole and on forward contracts as a more civilized and transparent form of financing. Credit unions will liven up their activities and will compete with banks in this situation due to the ease of obtaining a loan. Banks will start actively working with medium-term loans after the arrival of cheap long money in the country, as well as due to foreign currency loans since the money supply of foreign currency deposits will accumulate much faster. Therefore, improving the system of bank lending, credit unions development, an agricultural cooperative bank establishment, leasing lending intensification etc., are key factors of credit policy in a transformational economy.

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