



**Market of Financial-Credit Services**

Volodymyr KYRYLENKO

**BANKING SYSTEM:  
SUBJECT MATTER AND PERSPECTIVES  
FOR ITS DEVELOPMENT IN UKRAINE**

**Abstract**

The paper is concerned with the economic essence of the notions of «banking system», and «bank», the author presents his own understanding of these notions. Researched are the peculiarities of various types of banking systems functioning. The position is substantiated of the necessity to increase the level of capitalization, self-sustainability, reliability, and transparency of national banking system meeting the requirements of Basel Committee I and II.

**Key words:**

Banking system, bank, principles of banking system development, capitalization, self-sustainability, reliability, transparency.

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Kyrylenko Volodymyr, Candidate of Economic Sciences, Assist. Prof., Department of Economic Theory. Ternopil National Economic University. Ukraine.

**Subject Topicality.** The sustained economic development greatly depends on the actual credit and financial system, in particular on the banking one. The effective functioning of the banking system needs theoretical and methodological principles for its concretization and perspectives of development. Nevertheless, at the moment there is no unique approach to the determination of the notions of «banking system» and «bank», as well as their descriptions manifested on modern stage of economic development.

Many foreign and national scientists research the problem of the banking system. Among foreign scientists it is worth noting the following: A. Arkhipov, A. Horodetskii, Ye. Oleinikov, Ye. Zhukov, V. Kolesnikov, L. Krolivetska, O. Lavrushyn, O. Rohova, Peter S. Rose, and others. A significant contribution to the development of that problem is made by the national scientists, including B. Adamyk, V. Atanasov, N. Bytska, A. Halchynskyi, V. Heyets, A. Hrytsenko, I. Hutsal, O. Dziubliuk, V. Koziuk, A. Kryklii, A. Moroz, M. Savluk, O. Yaremenko, and others. The researches of the scientists enabled to deepen the knowledge in that area, to generalize and systematize various points of view.

**The objective of the paper** is to determine the main point of the notions of «banking system» and «bank», and to show their new properties manifested in the process of the research.

Banking system is an important element of economic basis of the society that is developing by the laws of market economy. It is a foundation of credit and finance system. The functioning of modern economy is impossible without it. Being a component part of economic, and credit and finance system, the banking system not only depends upon them, but also it promotes their development. The development of economy brings about quantitative and qualitative changes both in banking, and in credit and financial system, as a whole.

Banking system is a series of various banking institutions and their properties, which are in various property forms, and have various organizational and legal statuses, lines of activities interrelating among themselves, as an integrated unit. The banking system is coherently organized, its all structural elements are interrelated, and the system of relations with banks, their creditors and borrowers is regulated.

Banking system has a general aim and objective. Its main mission is to regulate credit and money flows, and to boost economic growth.

The notion of «banking system» is widely used in foreign and national literature, but there is no unique approach to its determination. There is a wide and narrow interpretation of that notion. In a wide sense, the banking system is taken for a credit and financial system in general. It is viewed as an assembly of various types of banks and credit institutions for mobilizing the funds, and providing different services in accepting deposits and lending credits.

In a narrow sense, the banking system is viewed specifically as an assembly of different types of interrelated banks functioning as a unique body in a certain historic period, and performing respective functions with reference to mobilization of funds, provision of different services accepting deposits and lending credits) in order to gain profit.

The main reason for the variety in the notion implication of «banking system» consists in its complexity, which is increasing with the development of economic system and acquiring of new properties. In the third volume of «capital» K. Marx referring to the words of one of his predecessors, wrote, that «the banking system is the most sophisticated and perfect creation, brought about to be the capitalist mode of production» [1, p. 156].

Modern economic scientists also consider that the banking system is not a pure totality of banks, and they comment on inaccurate definition of that concept. Nevertheless, the definitions they give, scarcely change, or rather make the understanding of that notion even more difficult. In Prof. M. Savluk's opinion « the formulation of the banking system as legally regulated, accurately structured and subordinated totality of financial mediators performing banking activity on a continuous professional basis, and functionally interrelated in an independent economic structure, looks more reasonable» [2, p. 564].

Professor S.Mochernyi interpreted the banking system as the «totality» of financial institutions of currency market (engaged in banking business) in their interrelation and interaction, having their activity legalized» [3, p. 86].

The banking system provides the following:

- objectively exists despite the will and conscious of people;
- unites different banks with the idea to make profit, and to ensure the economic growth;
- promotes the implementation of the integral program directed at the development of its own system;
- ensures the contacts not only among its component elements, but also with the environment.

Typical attributes of the banking system are the following:

- a) availability of elements directed at the unity of purposes;
- b) availability of specific properties;
- c) capability to fungibility element;
- d) its dynamism, self-regulation, and controllability;
- e) availability of central bank, system coordinator, regulator of money and credit, and financial processes in economy.

Specific character of the banking system is manifested in its functions, which have certain peculiarities, and are interrelated. There are different approaches to classification of the banking system functions, to the nature and number of the latter. The author agrees with the scientists determining three following functions:

- making money and regulation of money stock;
- transformation function;
- stabilization function.

The function of making money and regulation of money stock enables the banking system to change the circulating money stock, to shore it up (increase) or decrease meeting the demand for money.

The main point of the transformation function consists in the fact, that the banks mobilize cleared funds of certain economic agents and transfer these funds to other ones. On that basis the possibility occurs to transform the amount and terms of money capital and financial risks.

The stabilization function's mission is to ensure the sustainability of banking business and money market. The banking system functions in the conditions of increased risk, constant threat of losing money, and bankruptcy. It causes the necessity to continuously oppose risks. As the mediators of money market, the banks assume the responsibility before investors for bank risks of their borrowers.

The function performance is ensured by respective laws and regulative acts which regulate the activities of all elements of banking system and creation of proper control and monitoring mechanism for meeting both the actual laws and banking businesses.

Since the central element of the banking system is the bank, it is feasible to find its economic backbone.

The term «a bank» is originated from the Italian «banco» meaning «a counter», «a bench», «a table» where the money changer changes money. In many languages the word «a bank» has a similar meaning. In English it is «a bank», in Italian – banco, in French – banque. As the historian science says, this term came into being in challenging conditions on a certain stage of credit developing, and it was known not less than 3000 years ago in Assyria, Babylon, and Egypt [4, p.50]. In the Ukrainian language this word came into use through French.

In scientific literature there is no single approach to the determination of the bank principles, number of functions, main transactions it performs, and the interrelations of the latter. Mainly, the Western and national economists in their researches esteem the bank as: a) financial mediator performing a series of base operations; b) financial institution providing certain services; c) enterprise or financial enterprise performing different mediator functions; d) financial or-

ganization performing certain functions or performing respective transactions [5, p. 360].

Macmillan Dictionary of Modern Economics describes the bank as a financial mediator, which usually accepts funds in kind of deposits withdrawable on demand or short term deposits used for granting credits in kind of overdrafts, borrowings or ineligible bills discount, as well as for investment into other, mainly financial assets (like market securities) [6, p. 9].

The «Economic Definition Dictionary» under the editorship of L. Alekseyenko and V. Oleksienko determines the bank as a financial enterprise (economic institution) accumulating temporarily cleared funds (deposits), and is a mediator for mutual payments and settlements between legal persons and individuals, also it regulates currency circulation, issues securities, etc. [7, p. 68].

The article 3 of the first version of The Law of Ukraine «On Banks and Banking Business» adopted on 20 March 1991, interprets the bank as any institution performing the functions of crediting, spot dealing and payment services of economic agents, and performing other bank transactions under this Law. That wide interpretation of the notion of «bank» was later reviewed by Ukrainian lawmakers under the pressure of lobbyists, and numerous bank owners. In 1993 some amendments were made to the Law, which concretized the notion of «bank» and limited the functions of non-banking financial mediators. The latter were forbidden to open accounts, accept deposits, make payments, and accommodate credits.

The notion of «bank» was more significantly specified by the law-makers in the second version of The Law of Ukraine «On Banks and Banking Business» adopted in December 2000. The art.2 of that version of the Law says, that the bank is a legal person which has the right to simultaneously perform three types of transactions, including attraction of funds as deposits, allocation of these funds on its own behalf, and management of bank accounts of their clients.

In our opinion, all definitions of the term of «bank» presented in the works of foreign and national economic scientists have the priority to exist, and deserve certain attention. All of them argue that the bank is a many-sided, sophisticated notion. Therefore, it could be characterized as a specific kind of entrepreneurial activity, and as a credit and financial institution related to the movement of loan fund capitals (TOL-total outside liabilities), their mobilization and distribution.

Here it depends much upon how wide or narrow the bank interprets the legislation of this or that country. For example, in Germany and France any financial mediator can get the status of the bank, which performs certain transactions which under the law are considered as banking ones. Thus, according to the Law on Banks of 10 July 1961 of the Federative Republic of Germany any institution performing one or several kinds of banking operations has the status of a bank. Nevertheless, the legislation in Belgium, Italy, Spain, Greece, and

other countries limits banking business specifically with deposit activity [2, p. 548].

The industrially developed countries do not find it principal how to interpret banking business –either wide or narrow. Financial institutions are allowed to use the notion of «the bank» for their names. In our country the situation is different. Financial institutions are strictly forbidden to use that notion in their names, since it is considered as the breach of law in effect. For example, the attempt of some of our national pawn broker's offices to use the term of «bank» in their names and advertisements troubled both, the NBU and the State Commission for Regulating Markets of Financial Services [8, p. 62].

The necessity to concretize the notion of «bank» on modern stage of the Ukrainian economic and credit-and finance development, in our opinion, has been lobbying because in addition to a very great number of the banks, other credit and finance mediators pretend for a share of profit. Eventually, when the national banks become more powerful and rather lessen in number, let's say by four times, that situation will change. Then the necessity will arise to interpret the bank wider.

As Prof. M. Savluk justly notes, despite the differences in interpreting of the notion of the «bank», we can find something common in all the examined approaches, and determine the bank in legislative aspect as a financial mediator [2, p. 549]. In particular, it is instrumental at the moment, when the researches of economic scientists began to be published, and where that thesis is criticized.

Thus, I. Ivasiv in his paper «Modern Bank in Search of Identity» argues, that since the end of the last century, when the banks faced the crisis of identity, the «traditional vision of the bank as the institute of financial mediator does not meet the reality any more. It requires the necessity to introduce the notion of «the modern bank» as an alternative to the traditional understanding of the bank» [9, p. 46].

In his research the scientist proceeds from the fact, that the bank while functioning within the scope of financial market, depends upon the environmental conditions, and it changes simultaneously with the changes of financial landscape. In order to understand a new image of the bank, in other words, to understand nature of modern bank, the scientist recommends referring to these changes. The scientist names the basic trends under which the financial markets have been developing for the latest decades. They include: 1) the processes of technologic developments; 2) globalization; 3) deregulation.

The author of this given paper agrees with the scientist that alongside with the modernization of post-industrial society and its transmission into the information society come the evolution of the bank essence. The change of the bank essence and its role in economy is related to the development of the economic system of the society, evolution of money, and change of the character of banking services. Since the information has become an important sort of economic resources, and with the development of information society, the new means and

channels for the information transmission arise, the importance of the elements related to accumulation, processing and provision of information grew for the banking business. All that comes along with the arising of principally new technologies for provision of banking services.

At the same time, in our opinion, in spite of the «information beachhead» and «technical breakthrough», the banks still are in the market environment as :

- crediting mediators among moneyed and other functioning entrepreneurs;
- mediators for payments;
- mobilizers of currency incomes and savings for converting them into capital;
- creators of credit circulating instruments.

Nevertheless, at the end of his research answering the question of M. Olson, the member of the USA FRS Board of Directors whether the banks still are remaining specific, I.Ivasiv tends to support the scientists who regard, that the bank as a financial mediator will die with the abolishment of monetary funds, and subsequently he refuses from his views giving a positive answer [9, p.47].

In addition, the bank functions and operations depend upon its status (i.e. private, corporate, state, transnational), and its type (i.e. commercial, saving, cooperative, etc.), and level of credit and banking system development. With the development of the bank the role grows of main functions and operations it performs, grows, the importance of each of them changes, and new ones come into being. Therefore, a number of functions and main operations, and their importance differ in different historic times.

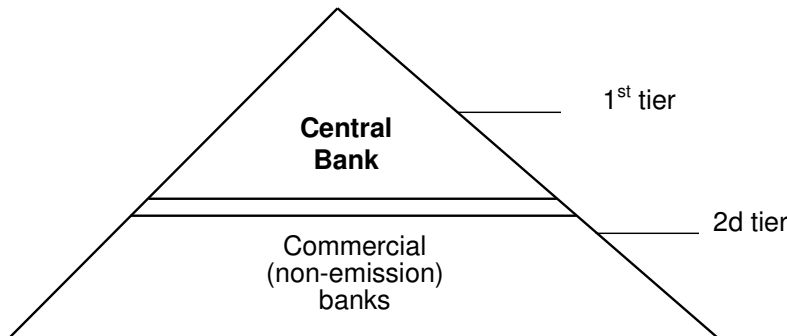
Historically the world practice knows the following three types of national banking systems:

- a) two-tier banking system;
- b) three-tier banking system;
- c) centralized (one-tier) mono-banking system.

Fig. 1 shows a two-tier banking system. The first tier of that system is made of the central bank, which organizes and controls the money circulation in the country, that is, it pursues a state issue and exchange policy, and constitutes the basis of the reserved system. The central (note-issuing) banks produce services exclusively to two categories of clients, including banking institutions and governmental structures. The second tier is made of independent non-emission banks and various credit and financial institutions, which are under control of the central bank, and whose clients are businesses, organizations, and individuals. Two-tier banking systems are considered to be in Great Britain, Germany, France, USA, Russia, Ukraine, and in many other countries.

Figure 1.

**Two-tier structure of credit and banking system**



Under the two-tier system the relations among the banks are built in two following panels: in vertical and in horizontal.

Vertically are reflected the relationships of subordination between the central bank and other non-emission banks. Here the central bank plays the role of the organizer and controller of money circulation in the country.

Horizontally, the relations are built of full-fledged partnership and competition among the commercial banks.

Commercial banks are developing both, through capital augmentation, and through establishment of affiliations and daughter branches in the regions. Their activity is either fully, or partially regulated and controlled by central banks or specially built credit institutions.

Three-tier banking system differs from the two-tier one, since the third tier is separated, and it includes credit institutions of non-banking type (e.g. financial and insurance companies, investment funds, etc.) Three-tier banking system successfully functions in Switzerland, Japan, and in some other countries.

The centralized mono-banking system is that one, which is based on the principles of planned economy, budget planning and financing. The main task of the banks in that system is not crediting, but financing of national economy. That system provides for exclusively horizontal ties among the banks, universalization of their operations and functions. It could be described as a one-tier system. Here all the banks of the country (including the central bank) are on the same tier, and they are the full-fledged agents, practically perform the similar functions providing credit and payments services, either all of them are state branches of the central bank.

The centralized mono-banking system is indicative for the countries of command and administrative totalitarian management regime. In its classical



mode it was represented by the former USSR. The banking system of the Soviet Union was based on the following three state banks-monopolists: USSR State Bank, USSR Construction Bank, and USSR Bank for Foreign Trade (VTB). Also, there were Soviet Foreign Banks abroad. In addition, there existed the system of territorial savings bank branches, and pawn broker's offices. The credit institutions of non-banking type, like credit cooperatives, companies of mutual crediting, and so, were liquidated. There were no special financial organizations, like insurance companies, investment funds, and pension funds, since the systems of insurance and pension provision belonged to the state domain, and was a component part of state finances.

The banking system that had been existing in the USSR till 1988 provided the system of state institutions. The performance of the latter was regulated by instructions and provisions of state organs and the USSR State Bank, which, in fact, acted itself as the Bank Ministry, managing the banking system mainly through administrative methods, and formally taking responsibility together with the central and local authorities for the liabilities of all subordinate credit institutions.

As justly notes A.Artemiev, that banking system did not meet the principles of functional completeness. Moreover, the principles of self-development, openness, efficiency and other were infringed [10, p.73-74]. That system is not viable under conditions of market economy. Alongside with denationalization and privatization, the necessity arouses to build a new, different banking system that is functioning on market principles.

General characteristics of the banking system existing in the USSR from 1930 to 1987 are shown in table 1.

Different approaches to the developing of the banking system in many cases manifest in the following:

- in the ratio of property patterns of credit and financial institutions. While , for example, in the USA private (incorporated) institutes prevail, in the countries of Western Europe and Japan, alongside with private, considerable place belongs to semi-governmental, state, and cooperative credit and finance institutions;
- in the character of made services, essence of bank operations respectively wide introduction of electronic computation technique and office equipment into the banking area;
- in delegating legal rights to credit and financial institutions to perform operations. While in the USA non-banking credit institutions enjoy similar legal rights with the banks, the credit (non-banking) institutions in Great Britain are restricted in their banking activities.

*Table 1.*

**Main aspects and principles of the USSR banking system for the period from 1930 to 1987.**

Main type of a borrower	Aspects and principles of the activity	State policy	Description of the legislative base
State enterprises and collective farms	The USSR banking system did not meet the principles of functional completeness; also the principles of self-development, openness, efficiency and other were infringed. The crediting of enterprises was based on the approved plans and budgets, and did not meet real need of the borrower in credit resources, and the capacity to pay back the credit.	Complete mobilization of temporary free monetary funds of national economy and state budget through the banking system. Centralization of bank operations in the State Bank. Crediting made according to the rigid plan.	Rigid state regulation of all bank operations through the Governmental Decrees and instructions of the State Bank.

- in the peculiarities of fields of activities separation between commercial and investment banks. In some European countries (Germany, France, Austria, Italy) there is no clear separation between commercial and investment banks that can be explained by the position of the latter on the securities market. In Germany the banks combine short-term, deposit and borrowing, and long-term investment operations. In the USA credit and investment banking operations are strictly separated. Investment banks specialize in the operations with state and corporate securities. The functions of commercial and investment banks are clearly defined in Great Britain. Here the investment banks have right to apply to the Bank of England for credits, and they operate the attracted funds of the commercial banks;
- in different principles of commercial banks' structure. In some countries the principle of segmentation dominates, providing for the banking restriction with certain type of operations, or the sector of money market. In others, the principle of universality prevails, providing for the abolishment of restriction for the banking activity on money market. The principle of segmentation is clearly observed in the banking law of the USA and Japan, where the banks practically are forbidden to negotiate real estate transactions, insurance operations, etc. In

most of the West European countries those restrictions are abolished, and the second-tier banks have a right to provide any financial services on money market;

- in different approaches to the organization of banking surveillance. In this respect, three groups of countries are clearly defined, which differ in the place and role of the central bank in management and technique of creation of surveillance structures in the country. In the one group of the countries (Australia, Island, Spain, Italy, Portugal) the supervision functions are assumed by the central bank. In the second group of countries (Austria, Denmark, Canada, Norway, Sweden, Finland) the control functions are delegated to the Ministry of Finance. In the third group of countries (Germany, USA, Switzerland, France) the supervision functions are assumed by the central bank together with other bodies. Thus, the German Federal Bank works together with the Federal Department of Surveillance over crediting; the USA Federal Reserve System acts together with the Ministry of Finance, and the USA Treasury through the Department for money circulation controller and independent agency of the Federal Corporation of Deposit Insurance; the National Bank of Switzerland acts with the Federal Banking Commission and Swiss Banking Association; the Bank de France acts together with the Committee for Banking Regulation, the Committee of Credit Institutions, and the Banking Commission.

We will specify the structure and functions of the banking systems in the leading world countries.

The oldest and most perfectly developed is the two-tier credit and banking system of Great Britain. All the experts note its high rate of capital concentration and specialization, its well-developed banking infrastructure, close connection with international market of lending capital, and orientation at international economic relations servicing.

On the first tier of two-tier credit and banking system in Great Britain there is the Banking Monetary Policy Committee, the Bank of England, and Financial Services Authority (FSA). The Banking Monetary Policy Committee designs money and credit policy of the Central Bank. The Bank of England, which is the Central Bank of the country, is the principal chain of the banking system. The Financial Services Authority (FSA) is a special surveillance organ which is assuming the function of surveillance over the activities of commercial banks.

The second tier encompasses the following institutions:

- deposit (clearing), credit, trade and foreign banks, each of which has a determined specialization and specific peculiarities;
- credit and financial institutions of non-banking type including various finance houses, saving institutions, construction associations, insurance companies, pension funds, investment funds, finance companies, credit unions, etc.

The two-tier credit and banking system of Germany reflects the peculiarities of national economy with respect to the federative form of state regime. The first tier is represented by the German Federal Bank and Federal Authority of Surveillance over Crediting. The second tier is the system of commercial banks and specialized credit institutions numbering four thousand, and their branches in the country make forty five thousand. The second tier of the banking system consists of the universal commercial banks, including gross and provincial banks, saving banks; cooperative central banks; credit unions; specialty banks (state and private mortgage banks); post-office and communal banks; other specialty banks, specifically endorsement central banks.

The German national banking system is incidental to high rate of deposit reliability and economic efficiency which is guaranteed by firm monetary system, perfect and liberal banking legislation (law), and universally functioning credit institutions.

The German model of banking system is considered to be ideal and serve a pattern for replication in the EU member countries.

The French two-tier credit and banking system includes the following main chains. In the first tier there is the Central Bank of France (Banc de France), National Credit Union, Banking Regulation Committee, Credit Institutions Committee, and Banking Commission. The second tier encompasses the commercial banks of different types, financial companies, cooperative credit institutes, pension funds, savings and insurance banks, mutual crediting banks, associations, unions, etc.

The two-tier banking system in the USA consists of the following main elements. In the first tier of the banking system there is the Federal Reserve System (FRS) including the FRS top managers, twelve Federal Reserve Banks (according to the number of reserve counties, they are 12 in the USA), which are central for their counties. In addition to the named, the first-tier encompasses the Controlling Authority of Money Circulation, and Federal Corporation of Deposit Insurance (FCDI).

In the second tier of the USA banking system there are 7.5 thousand of commercial banks including FRS members (6 thousand), the banks of the states non-members of the FRS, but insured in the Federal Corporation of Deposit Insurance, and the FRS non-member banks which are not insured in the FCDI (623). The second tier, in addition to the banks, includes the credit system of non-banking specialty institutions, like post-office savings banks, finance and insurance companies, credit cooperatives, pension funds, funds of social insurance, mutual crediting unions, federal credit institutions, etc.

The USA banking system has in its inner structure and organization the following peculiarities. First, it is lacking the single regulation policy. Second, the trend is observed for mitigating of the regulation and control on the side of the state and federal banks over the activity of commercial banks.

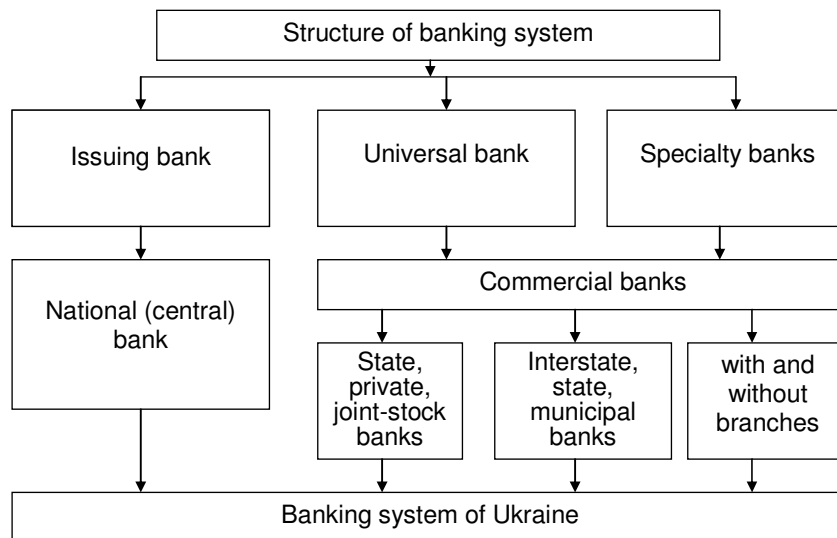
The national banking system has a long-standing history of birth and development. Nevertheless, its modern essence under international standards of the development is too young, and it is on the stage of formation. It arose at the beginning of the 1990-s through the denationalization of several available and creation of some new cooperative and commercial banks.

A general vision on the structure of the banking system in Ukraine is shown in figure 2.

Since 2007 the transition to the FRG model of two-tier banking system has been initiating in Ukraine in order to improve the available one. The experts regard that the transition to the German pattern is a qualitatively new approach with regards to the development of the national banking system enabling to enhance the priming of the economic development, to have credibility among people, and to be competitive on foreign markets. The banking activity to a greater extent will ground on the principles of openness, transparency, equality, without bias, and responsibility before the client. All the banks, which effectively work despite their size, will have equal chances on the competitive market; they will find their own niche and their client. Transition to the German model will enable the national banks to increase its defense against the crisis phenomena.

Figure 2

**Overall Structure of the Banking System in Ukraine**



Nevertheless, the banking system can meet new tasks specifically under:

- the sustained economic development;
- removal of disparities in the structure and rates of development of the economy and the banking system;
- balanced policy;
- mitigating of tax pressure;
- overall development of legislation on the Basel principles;
- faultless and effective functioning of payment system;
- introduction of National system of e-payments;
- availability of sufficient personnel of top administration and middle managerial level.

The national banking system is unable to quickly solve these tasks and overcome the failures under the absence of the respective specialists. In the experts' opinion, the most critical problem for the Ukrainian banking system at the moment is lack of highly qualified, honest proper specialists on the level of top and middle management chain, in particular, in the area of risk management. According to the International Rating Agency Standard & Poor's estimates, over 80 % of CIS banks (and this figure corresponds to the Ukrainian banking system too) in particular, the system of risk management does not meet the international standards, or is absent as a whole [11, p. 13].

A great challenge is the adaptation of the Ukrainian banking system to the Basel principles of effective surveillance over the banking activity, which is the basis of the European banking law, and determine principles of the organization of the effective banking surveillance and regulation in the EU countries [12]. Though as it turned out, these principles are full of blind spots, which manifested themselves amid the actual global financial crisis. As the experts justly note, the Basil principles do not accentuate the risk liquidity. Nevertheless, as the practice shows, it is just the risks liquidity that in most cases are the catalysts of the crisis phenomena in the banks. Therefore, the Basel Committee has been constantly working at the improvement of its Principles.

The first-rate problem for the Ukrainian banking system is its integration into the global banking system via guaranteeing of global functioning principles, like capital adequacy, reliability, transparency, etc.

Self-sustainability is the basis for functioning of the banking system that is the independent banking activity. The ensure of the self-sustainability principle enables the banks to completely cover their operation expenditures on account of received operation incomes, get accumulations adequate for financing the expenditures needed for expanded re-establishment and social development.

Reliability of the banking system implies its ability to perform its functions under conditions when some of its elements fail to function within the established conditions for a certain period of time. The reliability reverse (opposite) feature is the riskiness of the banking system, which means the threat of operation loss performed by credit institutions. Reliability is the aggregated index, which is described by a certain system of indices with different significant coefficients having an effect on the final result.

There are external and internal factors determining the reliability of the banking system. The external factors include these which are conditioned by the influence of the environment; they determine the state of the financial market, national and global economies, political climate in the country, and force-major conditions. The internal factors are primarily connected with the internal funds provision, high professional quality of personnel and management quality, as well as with home policy of the banks. The internal factors of reliability include financial statement, its quality, shareholder base, capital stock and scope of activity, conservatism, transparency, and public activity.

The self-sustainability and reliability of the banking system in the developed countries are primarily ensured by the available capital and its capacity to augment. The most significant source for the inner reserves (capital) increase is profit and bank funds which are created from the profit. The share of these sources accounts for 40 % of the bank capital increase. For the bank capital increase widely practiced are merges and glitters, IPO market development, public floatation in stock-exchanges both in the country and beyond.

While viewing the capital stock as a significant factor of self-sustainability and reliability of the banking system, also the capacity of the banks to handle urgent transactions, it is worth noting that the real, not fictitious capital is meant. Availability and increase of the share of fictitious capital, i.e. that one which was formed with improper shares, becomes the reason for the financial crises. In the past a series of foreign and national banks owned rather great part of fictitious capital [13]. That capitalization does not increase either bank resources, or its financial firmness and reliability. On the contrary, it hides the available real problems and risks, and makes the objective analysis of the bank situation more difficult. The total assets of the USA commercial banks make \$12.2 trillion, of the Euro-zone credit and financial institutions – € 31.8 trillion [14, p. 5]. The share of banking capital in the countries of the Central and Eastern Europe makes about 40 % of GDP, while in the OECD countries – about 80 % of GDP. The figures presented in table 2 [15,p.48] give a certain idea about the level of capitalization of some of the most powerful banks in the Central and Eastern Europe.

Table 2

**The banks enlisted by the Financial Times as the biggest ones  
in the capitalization of the companies of the Central and Eastern Europe**

Rating		Banks	Countries	Market capitalization, \$ mln.	Chief stock-holder
2007	2006				
4	4	Savings Bank	Russia	70480,9	CB RF
13	13	PKO Bank	Poland	16630,2	Polish state (51,5 %)
14	14	Pekao	Poland	14830,7	UniGredit Group (52,9)
17	16	OTP Bank	Hungary	12809,8	Dispersed property
21	21	Bank BPH	Poland	9765,5	UniGredit Group (71,3)
31	33	Bank Zachodni Wbk	Poland	6797,0	AIB Group, Dublin (70,5 %)
33	24	Komercni Banka	Czech Republic	6581,5	Societe Generale (60,3 %)
34		Romanian Bank of Development	Romania	5839,1	Societe Generale (58,3 %)
38	52	Bre Bank	Poland	4876,7	Commerzbank (70 %)
46	38	ING Bank Slaski Bsk	Poland	3410,9	ING Group (75 %)
49	45	Bank Millennium	Poland	3278,0	Banko Comercial Portugues SA (65,5 %)
67	58	Kredyt PBI	Poland	2229,8	KBC Bank (80 %)
82	60	Banka Transilvania	Romania	1656,4	Dispersed property

The table 2 figures manifest, first, that the greatest capitalization rate pertains to the Savings Bank of Russia. Second, the trend to diminishing the role of those banks is not observed, since the rating of certain banks intensely grew for a year, and that of some others fall. Therefore, we can not assume that the quoting is artificial and shows the past independent status of those banks.

At the background of the presented banks of the Central and Eastern Europe, the national banking system does not meet the standards of self-sustainability and reliability in the classical sense. The main reason for that is a poor level of its capitalization. Table 3 presents the level of assets and capitalization of Ukrainian banks, and the capacities for crediting the real sector of the economy 3 [16].



*Table 3*

**Assets and capitalizations of the Ukrainian banks in 2003–2008**

Indices	Years					
	2003	2004	2005	2006	2007	2008
Volume of nominal GDP UHA bln.	264,2	296,2	441,5	544,2	720,7	950,5
Total banking assets UHA bln.	105,5	141,5	223,0	353,1	619,0	973,3
Total banking assets % of GDP	39,9	47,8	50,5	64,9	85,9	102,4
Balance (banking) capital UHA bln.	12,9	18,4	25,5	42,6	69,6	119,3
Banking capital % of GDP	4,9	6,2	5,8	7,8	9,7	12,5
Statutory capital UHA bln.	8,1	11,6	16,1	26,3	42,9	82,5
Share of statutory capital in balance capital in %	63,0	63,3	63,4	61,7	61,6	69,1
Regulatory capital UHA bln.	13,3	18,2	26,4	41,1	72,3	123,1
Credit portfolio UHA bln.	73,4	97,2	156,4	269,7	485,5	792,4
Credit portfolio % of GDP	27,8	32,8	35,4	49,6	67,4	81,4

As the figures show, within 2003–2008 years all indicated indices concerning the Ukrainian banking system tended to increase. At that, the rates of growth of the majority of the indices for the past two years were the highest and significantly exceeded the GDP rate of growth. The total banking assets for that period increased by 3.5 times and made UHA 141.5 milliard. Due to the dynamic growth of the total assets, their share in the GDP increased from 39.9 % in 2003 to 102.4 % in 2008.

The balance capital grew almost by 9.3 times, and in early 2009 made over UHA 119263 bln. The balance capital was increasing on account of the increase of the statutory capital resulted by re-estimation of capital and intangible assets, reserve fund, issuing differences, result of the previous years, total reserves and dividends, channeled at the increase of the statutory capital. Due to the balance capital growth its ratio to the GDP for 2003-2008 years increased from 4.9 to 12.5 %.

In recent years the growth of capitalization of the national banking system was fostered by foreign capital. At that, it is worth noting that foreign investors then wished to establish banks in Ukraine anew, to start from the very beginning.

At the moment, in most cases purchase of shares is observed, likewise purchase of banks in parts or completely. At that, after purchase often comes increase of capital and expansion of activity. It manifests the confidence in foreign banks.

The government today supports the expansion of participation of foreign capital in the national banking system not only because with the foreign investments extra resources came for the banking active operations, crediting of our economy and individuals. Not least important is the fact that with the foreign investments come the advanced foreign practice of banking management, running of banking business, new banking technologies, automation of banking processes, etc. In addition, legislatively were secured equal conditions for residents and non-residents participation in the bank capital.

Despite the positive trends, the problem of increase of banking assets and capitalization rate of the Ukrainian banks is one of the most critical.

Though the capitalization rate is of extreme importance for the development of the banking system and individual banks, it should not be done on account of fictitious capital. Therefore, one of the tasks of the Central Bank is to undertake rigid measures against fictitious capital, to create the favorable climate for commercial banks for increasing real capitalization. To meet that task the National Bank has to improve its ability of subordinated lending, to abolish the obligatory use of accumulative account in the process of issuing, to liberalize certain terms of purchasing shares, to change the methodology of internal funds estimation, etc.

To ensure the sustainability of the banking system and confidence in it a significant importance is to introduce international standards of transparency and openness of the information into the banking practice. Also, it is demanded by the laws of integration of an individual country into the global financial system. The national, like the international investors need an objective analysis of information. The investors, when studying the probability of investing funds into the bank, first analyze various variants if its further development, and only after they take decision. The more precise the investor estimates the perspectives of the bank development, the higher price he could pay. As the experts justly argue, the use of international practice for revealing information, creates fair conditions on the market of banking services, meets the interests of banks, investors and public as a whole [17, p. 20].

High level of the integration of economy and financial system of Ukraine into the global market area demands from the national banks to be open for the clients. The depositor has the right to be informed on everything he is interested in. Primarily, it refers to the information on credit interest. For example, the credit interest makes 24 %, the question arises, why and how it is made. Why have the deposits fallen in price? Depositors are interested in the evaluation method of yearly statements; likewise they would like to know the banks' sites, since the latter contain valuable information. Also, the depositors need to have the information on the proprietors who are the banks' beneficiaries are.

In 2008 for the first time the NBU published the lists of 174 banks owners, and it promised to provide that information regularly. The information turned out to be superficial and pertained to the owners of certain banks. The shareholders of the majority from among 174 credit institutions happened to be the legal persons, who had been registered off shores. At that, fourteen banks did not provide any information about the owners [18]. Having positively assessed those innovations of the regulator, the experts note that there could not be expected further revealing of real owners of the banks.

As A. Shapovalov says, the regulator detects the final owners at the bank registration, but during its further re-sales it is impossible to find who personally is behind the buyers. Earlier O.Kireyev also promised to provide the depositors with the information on the final banks' owners till the fourth generation. Hence, this problem will not be solved in the nearest future.

In order to detect the real owner of the bank, changes on the legislative level are needed. But it is hardly to be possible since almost all real bank owners are the Verkhovna Rada (Supreme Council) deputies, and most of them are not interested in the identification of this or that bank owner [19, p. 58].

Absence of true information on the owners creates great risks for certain banks and threatens the stability of the Ukrainian banking system as a whole. The banks whose owners are not known could open the way to laundering of money or making nontransparent transactions and create problems to call the owners to account. Also those banks are probable with impunity to create the fraudulent schemes for unlimited attraction of people's funds. Non-transparency of the banking system creates extra risks for any investment into Ukraine, and brings about to the establishment of very high crediting interest rates.

Nevertheless, recently a yearly growth is observed of the level of the Ukrainian banks information transparency. According to the financial experts, the average index of the national banks transparency in 2006 made 42 %, and in 2007 –47 % [20, p. 8].

It is corroborated by the research outcomes of 2008 made by the Ukrainian analytical Company «Agency of Financial Initiatives» and the Rating Service of Corporate Management of International Rating Agency Standard & Poor's. The research covered thirty national banks with the largest in volume of net assets as for 1 July 2008.

The researches grounded on the methods developed by the Service of Corporate Management of International Rating Agency Standard & Poor's. Its basis made the principle of full and timely making public the essential information interested for investors and other persons (e.g. analysts, clients, etc.). The research criteria were divided into three following blocks: «Structure of property and corporate structure», «Financial and operational information», «Structure and processes of Supervisory Board and management». In general, the level of the bank information transparency was defined in percentage terms to maximally possible level of its disclosure both, after its criteria, and as a whole.

According to the latest researches, the index of information transparency of the Ukrainian banks for 2008 grew from 41 to 44.9 %. As the experts note, the banks began to disclose information more fully on the ownership and corporate structure. While in the previous researches the level of disclosure of financial and operational information made in average 46.5 % of points, in 2008 it was 49.1 % [21, p.31]. At that, the information disclosure on the structure and the processes of Supervisory Board and management rates rather low, making 32.9 %, though this index a little exceeds that of 2007.

The improvement is observed under all blocks of information disclosure and of all the information sources defined by the methods of this given research. Nevertheless, the current indication shows that the average level of transparency still is rather low, making as less as twice against the similar indices of the leading international credit and financial organizations.

Positive index dynamics of information transparency mainly is related to a number of researched banks which took the course of the improvement of transparency. The banking system of Ukraine as a whole came to realize the economic advantage from making the information public. It is proved by the fact that many banks included into their 2009 plans and budgets actions directed at transparency increase.

The information transparency of our national credit and finance system should be facilitated with two laws. The Law of Ukraine «On Joint Stock Corporation» [22] abolishes the division of joint stock companies into close and public ones. Proceeding from the world practice, they will divide into public and private joint-stock companies, and that calls for obligatory disclosure of information. The innovation within that Law consists in the fact, that the public joint-stock company is obliged to have its own Internet web-page, where the information is placed to be made public. In addition, the public companies will disclose the information on their activities on the basis of international standards of accounting. Moreover, the named corporations should disclose the information on the stock exchange where they had been listed.

The second Law is «On the Amendments to Certain Legislation Acts Respectively Responsibility for Wrong-doings on the Securities Market» [23]. The Law calls for serious sanctions for nondisclosure or untimely disclosure of information by the securities emitters, which should stimulate the latter to keep to the norms of actual law.

A specific attention should be paid to the banking system analysis on the basis of both, consolidating of various foreign economic relations, and enhancing of interrelations within the system itself, and the development of inter-bank settlements. The inter-bank settlements include the system of making and regulating of payments in money inpayments and liabilities among banking institutions in the process of their activities. This system improvement is made through the creation and development of electronic system for inter-bank payments.

Today the inter-bank payments could be made in Ukraine through the system of e-payments, also through the own inter-bank payment system, and through direct correspondent relations among commercial banks. The electronic inter-bank payments are the payments made by electronic means for receiving, transmitting, processing and securing of information.

For the inter-bank cashless settlements an important role belongs to the correspondent relations, and the latter stipulate the credit institutions to handle the correspondent accounts. A bank opens that account in other bank to account the supplements performed by a credit institution on errand of another credit institution on the basis of the concluded correspondent agreement. The correspondent agreement is an agreement between two or several credit institutions about making payments and settlements by one of them by the order and on account of the other one. The correspondent accounts are of two kinds – the account of «NOSTRO» implying that «we have our account in your institution», and «LORO» – «you have your account in our institution». Those accounts could be opened both, unilaterally, and on mutual basis.

Aspiring to the world standards Ukraine has been developing not only the banks' accounting system, but also their infrastructure. Thus, the bank branches have been enlarging in number, also the ATMs, cash points, e-terminals, etc. have been set. Though this process somehow terminated in 2009 because of the crisis.

Consequently, the research results testify to the following:

- the banking system is a sophisticated economic notion and needs further study;
- the banking system of most of the world countries, in particular, in Ukraine, is not perfect, and is not able to oppose in full the effects of the financial crisis;
- the national banking system is in the stage of creation and needs a specific concern;
- for now there is no single viewpoint respectively understanding of the notion matter of the «banking system» and «bank»;
- though many papers devoted to this problem have been published recently, still a great many of questions are disputable and need further scientific research and profound study;
- creation of efficient banking system in modern conditions is a priority direction not only of theory, but also practice of its functioning;
- the efficiency of the financial market and economy as a whole greatly depends upon proper banking system.

The main tasks and the perspective lines of the banking system development and the improvement of its structure, in our opinion should be the following:

- to adopt the long-term strategy of the national banking system development meeting the principles recommended by Basel Committees I and II;
- to speed up the process of the banking system provision with the required legislative and normative base;
- to increase the level of reliability, openness and transparency of the banking system functioning mechanisms, as well as the disclosure of the required information stipulated by the NBU regulation documents;
- to introduce the international principles and rules of management, likewise the supervision procedure into the banking practice, and to ensure keeping to those documents and regulations;
- to facilitate the increase of the bank capitalization through merges and glitters;
- to improve the system of bank management by the NBU, to remove the excessive trustee from its side;
- to facilitate the development of small and medium-sized business, middle class, who are the main depositors ready to input their savings for the development of innovation projects.

The solution of the mentioned problems will have to promote the creation of modern, transparent, and competitive banking system capable to dynamically develop and meet the requirements of innovation-investment model of economic growth.

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