

Zwiększenie minimalnego rozmiaru kapitału zakładowego spowoduje zmniejszenie liczby banków na Ukrainie, zwłaszcza małych. Więc proponujemy zróżnicowane minimalnego rozmiaru kapitału zakładowego dla banków w zależności od ich formy organizacyjno-prawnej.

W szczególności banki, które są tworzone w formie spółdzielczego banku ustawie minimalny rozmiar kapitału zakładowego w wysokości od 300 tys. UAH do 150 mln. UAH, lub w ekwiwalencie hrywien od 1 do 5 mln. euro, zgodnie z wymogami Unii Europejskiej.

Głęboki kryzys bankowy na Ukrainie można pokonać za pomocą środków w systemie bankowym i działań w dziedzinie produkcyjnej, które są oparte na współdziałaniu organów państwa, Narodowego Banku Ukrainy, instytucji bankowych na podstawie polskiego doświadczenia.

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### INSIDER LENDING IN UKRAINE AS NATIONAL FEATURE OF DOMESTIC COMMERCIAL BANKS' BUSINESS MODELS

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**Abstract.** *The article is devoted to the characterization of the background and causes of insider lending by domestic commercial banks. Determined reasonable recommendations of changing the credit regulation.*

**Keywords:** *bank, credit, insider lending, banking regulation.*

The effectiveness of contemporary banking systems functioning is measured by completeness of the commercial banks functions and the banking system in general, especially in the capital reallocation within the national economy. The credit intermediation function plays an important role among the bank functions and in the banking system. The result of its implementation is stimulation the economy. After accumulating temporarily free funds of economic entities, banks lend to those entities which require additional financial resources for development. Considering the importance of bank lending and, simultaneously, its riskiness, bank's loans are the objects of supervision via banking regulation. Its goal is to create conditions for minimizing credit risks, the main of which are risks of insider lending.

Today National Bank of Ukraine, based on international experience, applies to insider loans very meticulously. The regulator mostly uses exceeding standards on insider lending as one of the main condition for the bank withdrawal from the market. However, analyzing the banks' credit policy since the domestic banking system was created, the approach of the National Bank to punishment banks for insider lending is not entirely correct. Therefore, international experience is not useful enough. Indeed, there are at least three objective reasons in addition to subjective causes of insider lending:

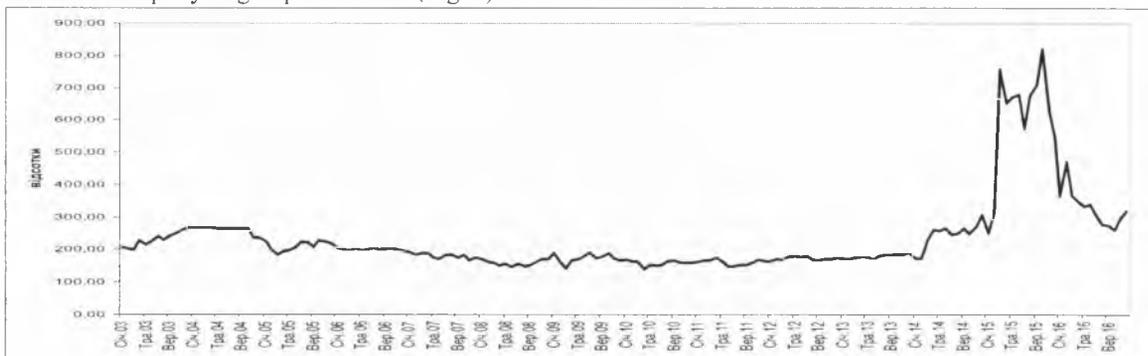
1) payment crisis in 1991-1994. During the payment crisis companies which were not be offered preferential financing by the Government and Parliament of Ukraine, were unable to finance their own businesses by banks' affordable loans. They also could not compensate the loss products supplied by Allied plans as well as for public orders. Because of the low requirements for the establishment of commercial banks, including minimum requirements for the authorized capital, many companies created their own "pocket banks" to finance their business. Of course this impacted on the economy negatively, as public deposits were used to finance one or more businesses. However, using this measure was the only way to maintain production;

2) the creation of financial-industrial groups (FIGs). According to the Regulation "On the financial-industrial groups in Ukraine" [1], approved by the President of Ukraine on January 27, 1995 №85 / 95, authorized bank of FIG might be a member of FIG in which more than 50 percent of the authorized fund is owned by FIG members and other participants and it invests in FPG; provides FPG's and its members' cash management services. In other words, bank is allowed to invest in FPG's activities at a legislative level. In this case, banks can lend to FPG investment, including

investment in fixed assets of FIG participants. On the other hand, if more than 50 percent of the authorized capital of the bank is owned by other FIG participants, these ones automatically become affiliated persons of the bank. In addition, cash management services includes the following banking transactions: overdraft and credit line for circulating assets replenishment. This is the responsibility of the bank in accordance with the law, but this is considered as insiders lending as well. In addition to the Regulation "On the financial-industrial groups in Ukraine" passed the Law of Ukraine "On industrial and financial group" [2] of 21 November 1995, according to which banks can participate in industrial and financial groups (IFG) and are allowed to Clearing of payments for intermediate products between the main enterprise and participants IFG and also among the IFG participants. Conducting clearing of payments, may also include a bank loan to cover debts estimated between participants PFG, which also stimulates insider lending;

3) frequent crisis in the ukrainian economy and the lack of suitable investment climate. Inefficient institutional environment and political instability in Ukraine's economy cause the crisis. Therefore, the owners of substantial participation in the bank capital, use banks to lend their own business. Because they can not get funding at the stock market and attract credit at viable rates from other banks because the NBU's interest rates rise to overcome the crisis consequences. On the other hand, affiliate may be the most reliable borrower in terms of business and security interests of banking activities in crisis. There is no bank which knows borrower's business model. That is why banks are not sure their borrowers will be able to withstand the tax burden, which existing in the Ukraine. In addition, a bank can not be sure that there will be no raider seizure of its borrower. Thus, insider lending may be less risky bank business than lending any other legal entities in terms of riskiness of the banking activity and in terms of owners of bank substantial participation's psychological confidence in crisis.

Confirmation of this can be a large increase a standard of credit risk (no more than 8 times the amount of regulatory capital) during the economic crisis. This standard is set to limit the concentration of large credit risk by individual counterparty or group of insiders (Fig. 1).

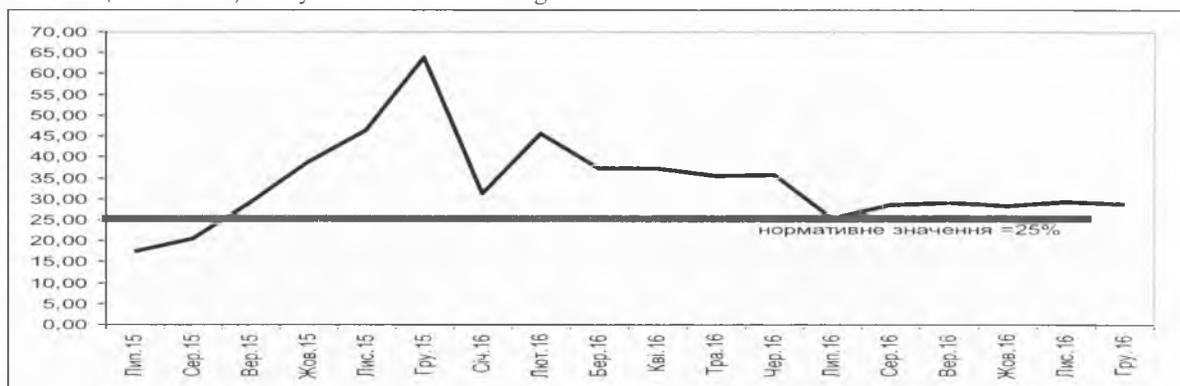


**Fig. 1. Dynamics standard of large credit risks of Ukraine's banking system from 2003 to 2016 \***

\* Calculated according to NBU official website [3]

The data presented in the figure moderate increase norm takes place in 2004 – during the political crisis and in 2008-2009 during the financial crisis. In 2014-2016 during the economic and military-political crisis value of this index is the largest in the last 12 years.

In addition to standard of large credit risks National Bank of Ukraine counted values of economic norms for one insider and all insiders. However, the method of calculating these standards was recognized as ineffective. Therefore, in 2015 there was introduced a new economic indicator – maximum credit risk on transactions with insiders of the bank (less than 25). Its dynamics is shown in Figure 2.



**Fig. 2. Dynamics standard of the the maximum total amount of loans and guarantees granted to insiders in the banking system of Ukraine from 2015 to 2016 \***

\* Calculated according to NBU official website [3]

Dynamics newly introduced standard show the decline of its value as the improvement of the economic and business situation in the country. Based on objective reasons for the increase of bank insider lending that we are justified before, it can be concluded that the insider loans are a national feature of the domestic commercial banks'

business models. Therefore, there is a necessity of changing the approaches to bank regulation of such lending. This should be done primarily by increasing the minimum values of the maximum credit risk on transactions with bank insiders from 25% to 40%. That would increase its value to the canceled Maximum total amount of loans and guarantees granted to insiders and allow banks to avoid sanctions by the NBU. In addition, the NBU should expand the analysis base of a separate bank to activities associated with the insiders. In other words to analyze not only bank's financial condition but also persons' associated with it. Technically, it is not difficult thing to do, because today there are 102 commercial banks in Ukraine. It is necessary to increase the requirements for the banks owners which are close to the insiders loans limit value as part of the bank development strategy and the banking risks management strategy. To do this, they should use the procedure efficient management of collateral. This collateral must be properly registered in the national and international standardized documents. Extending credit support businesses which are related to the lending bank will influence on the national economy positively. However, the expansion of this credit support should be detailed under the National Bank of Ukraine supervision. Because the maximum limit insider lending are unrealistic objective in Ukraine, based on the structure of the national economy and well-established business models of domestic banks. Thus, in this context, international experience to limit loans to insiders is unnecessary.

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## THE FUNCTION OF LOCAL GOVERNMENTS IN ENSURING EFFECTIVE FISCAL CONSOLIDATION

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**Abstract.** *The role of local governments in the implementation of the policy of fiscal consolidation. The interrelation between fiscal consolidation and fiscal decentralization have been established. The positive and negative aspects of the local governments budgetary authority expansion during the implementation of fiscal consolidation policy have been outlined.*

**Keywords:** *public finance, fiscal consolidation, fiscal decentralization, the central government, local governments*

One of the dominant issues of modern financial systems is a constant build-up of debt finance. This tendency is also true for Ukraine, which is becoming critically dependent on foreign creditors. This leads to the need for the policy of fiscal consolidation that will reduce the budget deficit and public debt. These processes take place against the background of the increasing role of sub-national authorities, which leads to weakening of the role of central government in the process of balancing public finances. Therefore, special attention should be paid to studying the relationship of fiscal decentralization and fiscal consolidation, where the efficiency of the latter depends on the coordination between the center and regions.

Fiscal decentralization involves making changes to the system of intergovernmental fiscal relations towards the expansion of local governments' budgetary authority. This way subnational governments become full budgetary control subjects. This greatly complicates the implementation of fiscal consolidation pursued by the central government, as there is need to harmonize public finances stabilization policies at all levels of the budget system.

The problem of coordination of stabilization measures in fiscal policy primarily depends on the structure of the state, whether federal or unitary, as well as forms of intergovernmental relations. Unitary states have a two-tier system of intergovernmental relations:

- level 1 - the central government;
- level 2 - local governments.

Federal states are characterized by a three-tier system of intergovernmental relations:

- level 1 - the central government;
- level 2 - the subjects of the federation;
- level 3 - local governments.

However, for both unitary and federal states the regulation of their intergovernmental fiscal relations is characterized through the following instruments:

- national and local taxes and fees;
- expenditures of state and local budgets;
- loans;
- intergovernmental transfers.