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CAPITAL MARKET IN UKRAINE AND WAYS OF COOPERATION WITH THE COUNTRIES OF THE COMMONWEALTH OF INDEPENDENT STATES (CIS)

The problem of financial and capital market in Ukraine is relevant because of the need of real sector in extended financing. Before the 2008 capital market was in a stage of its active formation: banks, insurance companies, pension funds, stock market increased assets and financial stability. However, these improvements were not accompanied by an adequate transformation of the real economy, which led to conflicts in the saving and investing processes. Thus, during 2006-2008 worldwide share of savings in GDP was 23.9, 24.4, 24.2% respectively, share of investments — 23.2, 23.7, 24.0%. The U.S. share of savings in GDP in 1995 — 2002 was about 16.9% in 2004 — 2007 — hovering around 13-15% of GDP (11.9% in 2008). In some countries, especially those that are actively developing, the share of savings in GDP reached 35% of GDP, share of investments — 30% [1, p. 217].

The process of formation and functioning of the financial and stock markets is constantly attracted the attention of scientists in Russia and Ukraine: S. Arhiyereyeva [2] A. Baranovsky [3] P. Belenky and O. Druhova [4] A. Daly and I. Doroshenko [5], S. Zaharin [6] V. Korneeva [7] I. February and V. Mishchenko [8] S. Naumenkovoyi and Mishchenko [9] V. Lyashenko and K. Pavlov [10] and many others. Despite the numerous studies on the functioning of a global financial system and financial market of Ukraine, some aspects of the capital market are not covered by domestic scientists. The purpose of this paper is the study of structure of capital markets in Ukraine, including its segments such as securities markets and bank lending and outlining of trends and challenges of building well-functioning capital market in Ukraine.

The share of investment in fixed assets ranged within 8-11% of GDP, the share of savings amounted to 3-4% during 2005-2008 in Ukraine. In 2008 compared with 2007 investment fell by 2.6%, while the share of foreign direct investments in fixed assets in Ukraine over the past 4 years was 3-4%. This resulted in «investment hunger» and the constant aging of capital. One reason for inconsistency in national savings and investment is inefficient national transformation of savings into investment and imbalances in the profitability of economic activities. Most of the basic industry sectors of Ukrainian economy provide lower returns compared to highly profitable financial intermediation, trade, communications. This drop in profitability was reflected in the structure of issuing securities that are traded on the Ukrainian stock market and bank lending. Last global financial crisis showed that there is no such a structure in the economy which would be able to redirect financial resources in the process of restructuring the economy. After all, along with the crisis in 2008 — 2009 a new phase in the development of energy and electronic technologies began (solar energy, photoelectronics, nanotechnology, creating new opportunities in communications, computerization, automation and production management organization). Introduction of new technology requires large financial resources, thus increasing the role of capital market, capable to accumulate the necessary amount of financial resources and ensure their efficient allocation in accordance with the priorities of economic development. This successful renewal funding on the basis of market discipline acknowledged IMF prerequisite of rational resource allocation, while reliance on funding from retained earnings will mean a less efficient allocation of investment [1, p. 31].

Moreover, the intensification of the capital market will compensate limited opportunities for investment due to higher effectiveness of such investments and higher factor productivity. The situation was similar to some extent to Asian crisis in late 90th when East Asian countries were able to restore dynamic growth despite the lower level of investment, the corporate bond market gradually recovered. Capital market or stock market is defined in the literature as the money market sector, where money are sold and purchased for long (more than one year) term for the financing capital construction and working capital from banks, insurance companies, mutual and pension funds, foundations mutual lending [11, p. 125 — 127].

Standard operations on the capital market are operations with financial instruments — stocks, medium- and long-term bonds, long-term deposits and loans of commercial banks, investment and operation of specialized finance companies and others. Taking into account the domestic capital market, we should focus on its two key segments — the stock market and banking market (the share of bank assets in total assets of the financial system is more than 90%).

Table 1

The structure of bargaining in the context of financial instruments for 2005 — 2008, (% of total trade volume)

Instrument	% of total trade volume		
	2006	2007	2008
Stocks	46,97	67,51	15,26
Corporate bonds	52,99	17,08	40,30
Derivatives	0.05	15,41	43,87
Investment certificates			0,57
Total	100	100	100

Source: PFTS reports for 2005, 2006, 2007, 2008.

Before 2008 the stock market of Ukraine was in stage of active formation. Increasing investment attractiveness of the country and active foreign capital investments positively influenced Ukrainian stock market, which had increased more than 5 times since 2004 and reached its peak development in 2008. PFTS index, total trading volume, number of participants of PFTS Securities Exchange reached historical highs. In early 2008, the level of capitalization in absolute terms (over USD 110 billion) took Ukraine to the 3rd place among European developing countries, after Turkey and Poland (Table 1). Capitalization of PFTS Listing for 2004-2007 increased from UAH 96 to UAH 530 billion, or from 20 to 80% of GDP (in 2008 — fell by 67.9% to UAH 181.28 billion) [12].

In the capitalization of Ukrainian stock market extractive industries accounted for 53.3%, services — 14.5%, financial sector — 10.5%. The main features of trade in the domestic stock market were: 1) frequent and significant changes in the ratio between the share of total trading of corporate stocks and bonds, due both to the dynamics of privatization processes (redistribution of property) and the level of risk 2) the extremely small proportion of shares in the stock list, 3) low level of investment certificates in trade volume and high — the stock exchange list, and 4) the positive dynamic market expansion of derivatives.

Despite the rapid growth of quantitative indicators from organizational and institutional point of view Ukrainian stock market is underdeveloped investment intermediaries, venture capital, investment and pension funds, insurance companies representation is weak in comparison with foreign countries (some indicators are presented in Table 2).

The number of insurers for the 2005-2008 increased from 398 to 469, while their assets increased from USD 20.9 billion to USD 41.9 billion (2% of GDP), but the crisis in 2008 severely hit the insurance business in Ukraine. Impact of financial crisis on Ukraine's insurance market was extremely powerful: insurance premiums decreased by more than 20%, while payments have increased by almost 10%. In particular, decrease in premiums in insurance of land transport (avtoKASKO) exceeded 30% and payments increased by more than 10%. The same situation occurs on life insurance market. Lack of support from regulators, sharp decrease in the solvency of population, loss of confidence in financial institutions, discriminatory legislation threatened the existence of this type of insurance in Ukraine.

Significant negative factor affecting the insurance market was moratorium on repayment of deposits for all banks and temporary administration in banks with financial problems. The amount of deposits to which insurance companies did not have access was at least 350 million. This situation leads to lack of working capital, reducing liquidity of insurers, and consequently delay payments of compensation, increasing distrust of insurance companies among the population. [13, p. 116].

Number of private pension funds (PPF) during 2005-2008, has doubled — from 54 to 109, their assets increased from USD 46 million to USD 612 million (0.03% of GDP), but the uncertain state of the pension reform and the limited areas of profitable investment areas (most of the funds invest in bank deposits) impedes the development of PPF in Ukraine. The low level of development of stock market according to national expert S. Arhiyereyev is incomplete institutionalization process and the immaturity of key institutional roles. As a result, there is a "gap between formal and actual institutionalization" [2, p. 48].

Immaturity of the institutional role of issuer can be seen in a level of opportunism of controlling shareholders and managers, the practice of non-payment of dividends on shares or pay them in a very small size, low level of professionalism of many managers of joint stock companies, weak corporate culture. Immaturity of institutional investors is characterized by a primary desire to purchase securities to acquire property or obtain personal benefits, a low degree

Table 2

Performance of non-bank financial institutions

	31.12.2006		31.12.2007		30.09.2008	
	UAH million	% of GDP	UAH million	% of GDP	UAH million	% of GDP
Insurance companies						
Total assets	23,995	1.9	32,213	2.0	37,307	2.3
Reserves	6,014	0.5	8,423	0.5	9,899	0.6
Gross insurance premiums	13,830	1.1	18,008	1.1	17,379	1.1
Gross insurance payments	2,599	0.2	4,213	0.3	5,081	0.3
Non-government pension funds						
Total assets	137	0.01	281	0.02	552	0.03
Pension contributions, including contributions from:	120	0.01	234	0.01	521	0.03
- individuals	5	-	14	-	23	-
- *copropations*	109	0.01	220	0.01	50	0.03
- *unincorporated business*	0.0	-	0.0	-	0.1	-
Pension payments	4	-	9	-	20	-
Credit unions						
Total assets	3,241	0.3	5,261	0.3	6,279	0.4
Loans issued	2,597	0.2	4,512	0.3	5,616	0.4
Deposits aquired	1,927	0.2	3,451	0.2	4,142	0.3
Financial companies						
Total assets	4,825	0.4	3,275	0.2	3,712	0.2
Amount of operations	12,225	1.0	17,972	1.1	14,407	0.9
Lombards						
Total assets	465	0.04	368	0.02	476	0.03
Loans issued	1,315	0.1	1,404	0.1	1,644	0.1

Source: Статистичні дані сайту „Фондовий ринок України". [Електронний ресурс]. — Режим доступу: http: // www.fundmarket.com.ua/

of readiness of many institutional investors (such as collective investment institution) to work with real investment resources, lack of possibilities to attract population to invest in stock market.

Ukrainian stock market remains the scene of property redistribution, which limits the execution of its basic functions: to ensure the smooth flow of investments and efficient allocation of financial resources. This situation distorts the process of pricing as the price of the shares mostly affects not only price (profitability) of assets but property rights, which gives ownership. Scientists explain this by some kind of monopsony (or oligopsony) when majority shareholder is the only buyer of shares and is able to define price of the shares for minority shareholders. As a result, majority shareholder receives a large transaction gain, while the others face significant transaction costs and the less organized is stock-market the higher are transaction gains of monopsonist. Finally, high transaction costs of raising capital through the mechanism of stock market (low liquidity of shares leads to the need to pay high dividends) reduces the attractiveness of the stock market as a source of financing. Therefore, most Ukrainian companies prefer to issue bonds which caused the above distortions in the structure of securities trading.

Thus, the disproportions of the stock market include [14, p. 25]: 1) a significant predominance of unorganized stock market over organized and foreign investors over domestic, 2) significant corporate control over stock-market and investment limitations of secondary market, and 3) significant market concentration (the dominance of a small group of issuers in terms of volume of trade and capitalization, primarily enterprises of basic industries, energy), 4) underestimation of many companies because of incomplete disclosure of their performance and investment intentions. These disparities led to the failure of the stock market functions such as a mechanism of accumulation and redistribution of financial resources and increased role of the banking sector as a source of capital in the economy of Ukraine. However, banks were not able to fully play this role due to disparities between maturity structure of loans issued and deposits. So for the relentless improvement of quantitative indicators of the banking system, its quality indicators showed poor dynamics. During 2005-2008, with increase of the assets of banking system from USD 141.5 billion to USD 927 billion or from 16.7% of GDP to 42.2% of GDP, loans grew from USD 91.2 billion to USD 755 billion (or from 8.6% to 34.6% of GDP), and the share of long-term loans increased from 49% to 57%, the share of investment loans dropped from 14% to 12%. Coverage of loans by deposits fell from 93% to 48.7%. To compensate high risk banks issued loans only to profitable businesses (at the end of 2008 35% of loans were concentrated in trade, 23% — in manufacturing, 15% — in financial services), while in this period interest rates on loans were on average level of 12 — 13% [13, p. 118].

Thus the structure of bank lending remained unsatisfactory for stimulation of innovation and investment. In addition, the activities of domestic banks were characterized by specific traits. Firstly, in most countries commercial banks do not play a significant role in long-term pension insurance, while the Ukrainian banks are actively developing their own pension programs making the services on retirement savings more accessible to the public, since large banks have the necessary resources for their development (computer and information system), provided competition for insurance and pension funds, and thus contributed to lower prices for their services. But this strategy leads to increased dominance of banks in capital markets. Secondly, the virtual absence of non-banking institutions and lack of liquidity of the stock market of Ukraine did not create an appropriate competitive environment, limiting the efficient pricing of loans and led to their overestimation. Thirdly, the value of the resources of commercial banks significantly dependent on the value of bank liabilities, primarily deposit rates and inflation. With the deployment of crisis tendencies and outflow of deposit money banks tried to raise the cost of servicing loans, which only increased the share of defaulted loans. Fourthly, involvement of Ukrainian banks in a wide range of activities provides a basis for conflict of interest: banks strongly recommend their products (loans, insurance, valuation etc.).

Thus, Ukraine has gradually formed the contradiction between the interests of banks to strengthen their market position and overall economic interests of the state to develop an effective capital market-based mechanism of effective competition. This issue deepened incompatibility of models of specific sectors of the financial market. The banking system was developed under a European pattern(German or continental), and the stock market under the American pattern [15, p. 9].

Potential conflicts of interest of financial intermediaries strengthened information uncertainty in the capital market and created a negative tendency, when high concentration of capital of banks together with the universalization of their activities provided the conditions for the growth of monopolistic tendencies in the domestic capital market. Monopolization supported by several factors [13, p. 118]: external: 1) the low profitability of the real economy, making it risky for long-term financing, 2) low transparency of most businesses that hindered their access to capital markets (primarily of the IPO) and allowed to involve only short-term and relatively expensive resources, 3) the legal and legislative framework, especially regarding the protection of investors and shareholders, and internal: 1) insufficient capitalization of non-bank institutions and organizations, 2) low quality and competitiveness of non-bank financial services institutions, 3) inadequate supervision of consolidated financial institutions, and 4) weakness of the regulatory function of the NBU to limit monopolistic implications.

As a result, Ukrainian capital market was formed in such a way, where: the stock market is not enough liquid, institutionally underdeveloped, unstructured and opaque; banking system — undercapitalized with excessively concentrated loan portfolio, which focuses on lending to highly profitable economic activities; insurance market is immature, with number of problems.

Thus, Ukraine's integration into the financial market of the CIS can be considered in the following dimensions: banking system, the stock market. Ukraine's banking system is a complex financial institutions of the state, individual resident, resident legal entities and non-residents. The emergence of foreign banks may be caused by several factors [16]: support existing customers and developing their own business at the expense of more profitable markets, providing financial and technical assistance to national banking systems in developing countries and countries with economies in transition.

The significance of foreign investment in Ukraine's

Table 3

The share of banks by assets in the banking system of Ukraine on 3.31.2010

Group	Bank	Total assets	Market share
Banks with foreign investments (excluding Russian)	RBA	55,100,385	6%
	Ukrsibbank	46,128,187	5%
	Ukrsotsbank	41,603,497	4%
	OTP	24,681,819	3%
	Creditprombank	14,234,951	2%
	Forum	14,021,108	1%
	Swedbank	12,249,752	1%
	Erstebank	9,831,912	1%
	Ingbank Ukraine	9,632,938	1%
Total		**282,856,331**	**30%**
Banks with Russian investments	Prominvestbank	34,612,855	4%
	VTB	33,144,592	4%
	Alfa-bank	26,594,816	3%
	Sberbank	9,924,447	1%
Total		**107,013,682**	**11%**
Ukrainian banks	Privatbank	113,437,222	12%
	Ukreximbank	73,171,643	8%
	Oschadbank	59,019,133	6%
	Nadrabank	22,907,651	2%
	Finance and credit	22,366,786	2%
	FUIB	18,098,370	2%
	Brokbiznesbank	15,825,643	2%
	Ukrgazbank	13,836,982	1%
Total		**552,213,981**	**59%**
Total assets		**942,083,994**	**100%**

financial sector is proved by their total share of FDI, which increased from USD 248 million (6.4%) in 2000 to USD 2.4 billion (11.4%) in 2006 [17], and to more than USD 12 billion (31.6%) in 2010. Total volume of FDI on April 1, 2010 amounted to about USD 40 billion [18].

A significant proportion of capital invested in the economy of Ukraine, came from the Russian Federation. So, as of April 1, 2010 FDI received from Russia amounted to USD 2.7 billion, the largest share of which (64%) went to financial sector. This expansion was made mainly by acquisitions rather than organic development of subsidiaries or strategic alliances with local players. The influence of Russian capital in Ukraine's banking system can be estimated from Table 3. It should be noted that its share in total assets grew at an accelerated rate compared to other countries from 3% in 2007 to 8% in 2009 and 11% at the end of 2010 [18].

Share of other CIS countries in the banking market

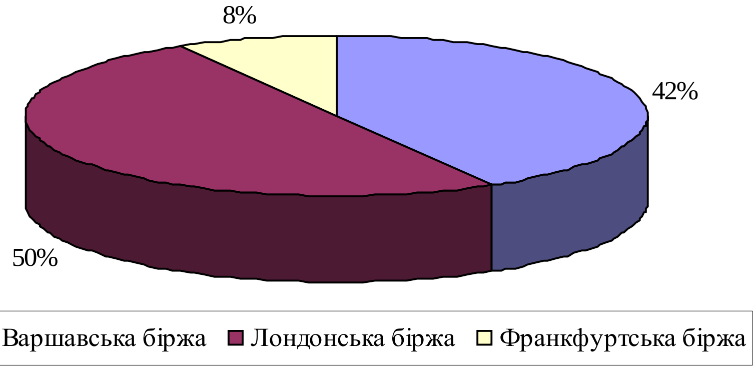

Fig. 1. Structure placement of securities of Ukrainian issuers on European sites in 2005 — 2010 years (the number of deals)

of Ukraine is less than 1%. Among these banks Kazakh BTA-Bank with UAH 3.8 billion of assets has a significant share. Ukraine, in turn, has no significant representation in the banking system of the CIS countries and is represented only by a small network of branches of several leading banks. Ukraine's integration in the CIS market of banking services, in fact — entering of the largest Russian banks into Ukrainian market is characterized by the following positive impact on Ukraine's economy: additional investment in the national economy, improving the quality of the regulatory activity through independent observation of processes taking place in the national banking system [16], increased competition, giving the economy a cheaper access to resources and higher standards of service.

The negative moments Integration are: growth of non-financial sectors of the economy depends on foreign borrowings, regulation of the banking system, due to both the strategy of foreign banks in Ukraine, and the possible political pressure on the regulator — if the shareholder is the state of a foreign bank, as in the case of Sberbank of Russia and VTB, the imbalance of integration processes — lack of reverse integration of Ukraine into the Russian market due to weaker position of Ukrainian banks.

Any large-scale economic transformation will remain incomplete without creating a competitive financial sector, which is able to mobilize and provide the reformed economy with investment resources. In the current situation in the world a stock market takes a central place, because it is multidimensional socio-economic system on which market economy as a whole operates. The stock market promotes accumulation of capital for investment in productive and social sector, restructuring of the economy. The success of economic reform in Ukraine is closely associated with a proper work of stock market analysis and development of its efficiency [19].

Stock market of Ukraine is not yet sufficiently developed and requires extensive measures to improve and increase the attractiveness of the domestic financial sector for potential investors to its international integration. Investors would welcome higher standards of disclosure, underwriting practices and transparency of trade [20]. Currently, domestic issuers the choice of exchange for placing its own securities primarily oriented to Western Europe, including London, Warsaw and Frankfurt stock exchanges (Fig. 1).

As shown in Fig. 1, one of the most attractive sites for foreign securities of domestic companies is the London Stock Exchange. It actively supports the efforts of companies from CIS and other countries to access capital, increase liquidity and improve their status in foreign markets, but at the same time the cost of placement services is quite high and amounted to 8 — 10% of the issue. Another promising stock market for Ukrainian issuers is the Warsaw Stock Exchange [21, 22]. This is international market, where shares of large companies of Central and Eastern Europe are accounted for 47% of the total trading volume. Among the advantages of the Warsaw Stock Exchange — loyal corporate requirements for issuers and cheap cost of market entry: an IPO here would cost the company 4 — 6% of the amount involved. Price list of accommodation on the Frankfurt Stock Exchange is also lower than in London, and are about 6 — 7% [23].This area is attractive for small and medium-sized companies [24].

Therefore, high cost of listing and possible volatility in equity prices are serious barriers for IPO on the western areas. Taking this into account, it is necessary to find alternative placements of securities. In this context, special attention should be paid to the stock markets of CIS countries, whose potential is not fully utilized. In particular, according to experts only the Russian stock

Table 4

The rating of the stock market participants (spot, by amounts traded)

#	Ticker	Name of the company	Country of origin
1	DRAGN	Dragon Capital	
2	TROYM	Troyka Dialog	Russian Federation
3	ARTCP	Art Capital	
4	FENIX	Fenix Capital	
5	PRINV	Prospect Investments	
6	ASTRM	Astrum Capital	
7	EAVEX	Ivex Capital	
8	SPECS	Otkritie	Russian Federation
9	ALPHA	Alfa Capital	Russian Federation
10	GFORT	Gainsfort-online	

market accounts for 60% of the organized trading of the CIS and Eastern Europe [25, p. 5].

There are three possible vectors of stock market development in CIS countries: 1) Cooperation among trading platforms in the CIS countries. On the one hand, the exchange within the CIS is in the stage of finding strategic partners. National stock markets interested in cooperation with more developed stock exchanges (eg, conducting IPO), thus tend to focus on regional and global markets. On the other hand, the post-Soviet space is the sphere of interests of the foreign exchanges, the development strategy of which aims at expanding the geography and establishes strategic partnerships with exchanges of the CIS. 2) The second vector provides guidance to the national market without interaction with foreign markets. 3) The third vector is characterized by cooperation between stock markets in the former Soviet Union. The economic interdependence of the CIS leads to need for interaction between participants of the stock market [26].

Despite the existing benefits of cooperation on the stock markets of the CIS, the activity here, as in banking, is shown only by the Russian Federation. Such a strategy was approved by Strategy of the financial market development by 2020, which in addition to plans to improve stock market regulation aims at creating an independent financial center to meet the needs of internal and external investors. The adoption of this program and the task of creating a global financial center in Russia contributed to scientific publications devoted to this problem. J. M. Mirkin [27] proposes to conduct an active, offensive policy: do not expect bilateral government agreements, and open the Russian market unilaterally for issuers and CIS countries, acknowledge the license of professional securities market participants that were issued in other CIS countries, to promote the harmonization of legislation, participate in the ownership of the trading systems and settlement and clearing of the CIS.

As can be seen from the annual report of the Ukrainian Stock Exchange [28], the integration of the Ukrainian stock market to the markets of CIS countries has already started. Table 4 and Table 5 show that the branch of Russian traders occupy leading positions in terms of trading on the Ukrainian stock markets both in the spot market (stock trading) and market derivatives (futures on the Ukrainian stock exchange index).

Status of the leader in providing analytical and brokerage services, asset management and other services related to the stock market provides foreign participants with significant influence on the dynamics of Ukrainian financial instruments, for instance when they take market-maker's position. The main function of market-makers is to maintain two-way quotations for the purchase or sale of securities, and in the tripartite agreement — also provide services to issuers to enable and support securities quotation list [29].

In addition to the leading role in securities trading, foreign investors have a significant impact on the stock infrastructure. Thus, the RTS has been involved in creating and owning a share of leading Ukrainian Stock Exchange, the MICEX has acquired 50% +1 share of additional issue of PFTS (UB and PFTS Ukraine are the leading exchanges in trading stocks, bonds, derivatives). Another foreigner, the Warsaw Stock Exchange, had the opportunity to become one of the players on Ukrainian stock-market, but stopped after the acquisition of 25% of Inneks Stock Exchange in 2008.

Table 5

The rating of the stock market (derivatives, by amounts traded)

#	Ticker	Name of the company	Country of origin
1	TROYM	Troyka Dialog	Russian Federation
2	SPECS	Otkritie	Russian Federation
3	ASTRM	Astrum Capital	
4	PRINV	Prospect Investments	
5	DRAGN	Dragon Capital	
6	CITYB	City Brok	
7	GFORT	Gainsfort-online	
8	UKRNT	Ukranet	
9	INVST	I-Invest	
10	BGCAP	BG Capital	Georgia

However, at this stage of development of the Ukrainian stock market, the participation of experienced stock exchanges of the Russian Federation will be useful to upgrade the stock trading in Ukraine [30].

Based on statistics provided by the CIS Executive Committee, which characterize the state of equity markets during 2009 taxonomic indicator of their level of development was calculated to determine the most promising markets for cooperation.

Initial data for calculations are presented in Table 6.

Integraged coefficient is calculated on the basis of the data presented in the table 6.

Fig. 2 shows that Russian Federation, Kazakhstan and Ukraine have the most developed stock market. After the end of the financial crisis of 2008 the market is gradually recovering. Yet many key indicators of the Russian stock market are far from their pre-crisis levels. Stock market capitalization for the 2009 year increased by 104% and amounted to USD 0.76 trillion. Traditionally, the high concentration of market capitalization of shares of Russian companies has not changed: ten most capitalized companies account for about 65% of capitalization, 50% of the capitalization is mining and oil and gas sectors. Number of traded companies had a slight upward trend, 330 new companies issued shares in 2009. Number of active licenses of professional market intermediaries decreased by 7.9% and custody licenses — by 4.2% during 2009 [31, 32, 33].

The development index of the stock market of Kazakhstan is 39.8%. Its regulation was aimed at further strengthening the financial stability of market participants, reducing the risks associated with the functioning of the stock market, protecting the rights and interests of consumers of financial services and enhancing the attractiveness of the national stock market. Stock market capitalization for the year increased by 84% and amounted to USD 0.057 trillion. Number of issues of financial instruments decreased by 0.68% [34, 35, 36].

Thus, markets of the CIS including Russia and Kazakhstan are a good alternative to European stock markets. Countries interested in integration can overcome many existing problems through cooperation, information exchange and mutual development and common standards. For example, standardization of information disclosure and underwriting practices based on best practices can help to increase investor confidence, which in turn will accelerate the growth of financial markets.

Correcting these defects of capital markets in Ukraine need improvement in general economic conditions (economic restructuring, improving the legal and regulatory framework, improved disclosure on the basis of global standards) and enhancing the state's participation in creating conditions for the effective operation of supporting mechanisms in support or direct creation of market institutions on the principles and standards adopted by the EU.

The following policies are crucial for the improvement of capital market: coordination of the pace of financial and real sectors of the economy, fundamental reform of the current system of financial regulation and control (primarily to prevent crisis situations), improving mechanisms of support of financial institutions by National Bank.

Such subsystems of the capital market as corporate governance; financial reporting system, measurement and

Table 6

Indicators of the state of the stock market of certain CIS countries

Countries	Indicator					
	Stock market capitalization, USD thousand 01.01.10 p.	Number of issues	Amount of placed securities, USD thousand	Number of institutional investors	Assets of institutional investors, USD thousand	Number of professional participants of stock market
Armenia	141,000	21	94,972	69	3,795,814	80
Belarus	1,500,000	4,579	17,100,000	74	-	198
Kazakhstan	57,310,000	2,773	35,480,000	399	28,330,000	177
Kyrgyz Republic	1,328,000	96	171,077	9	981	108
Moldova	362,000	133	52,365	-	-	42
Russian Federation	760,000,000	8,971	4,450,314	1,876	51,441	4,048
Ukraine	17,153,000	795	21,017,000	1,274	8,274,280	1,803

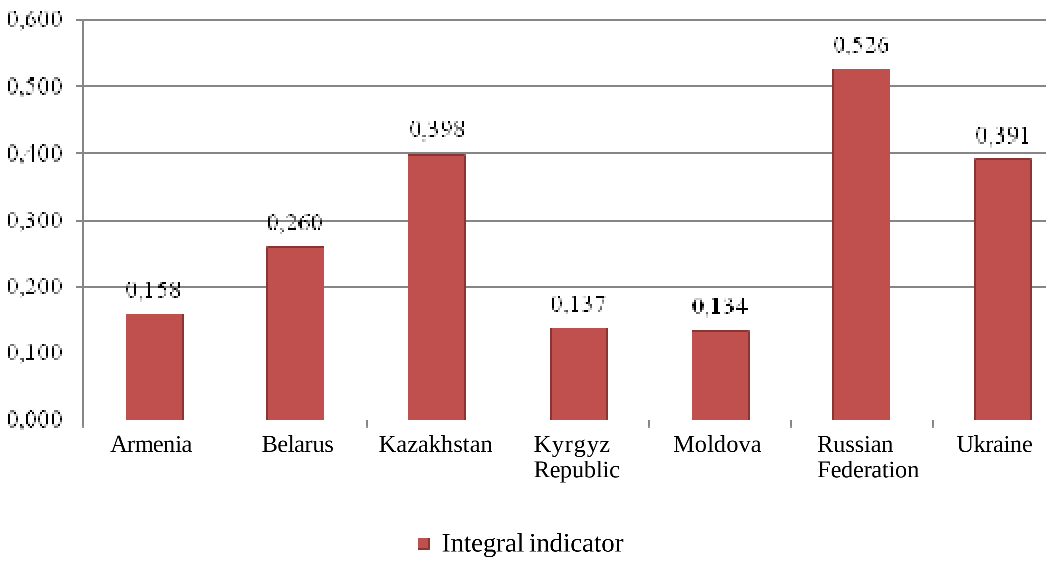

Fig. 2. Integral indicator of the level of stock markets of CIS countries [13]

risk management (in particular, certain norms of Basel-2), supervision and regulation by those agencies and market institutions that carry out work on the transfer of risk (insurers, hedgers etc.) should be a priority for policy makers.

Government participation in a competitive capital market should be based on two main regulatory processes: managing the competition between securities through issue of alternative financial instruments offered by the government, banks, non-bank financial institutions and agencies, the management of competition in the credit market trough formation of non-bank credit institutions expanding the list of investment instruments and financial services, development of alternative systems of borrowing, making it easier for individual investors to choose between banking and non-banking institutions.

Thus, a key role in regulating the capital market at the current stage must belong to the NBU and consist of the following: 1) establishing rules of formation of regulatory base, 2) development of capital market infrastructure, 3) licensing and supervising the functioning of capital market participants, 4) inspecting of financial institutions, 5) penalizing for the breach of rules and regulations, 6) collecting, processing and analyzing information and informing the public about the situation on capital markets.

Organization of NBU supervision for the capital markets as part of the financial market is based on the principle that all types of financial risks and other financial processes are the subject of rules, equal for all segments of the financial market. It is necessary to limit the scope of regulatory arbitrage. However, the maximum possible unification of rules for all sectors of the financial market, the NBU has to take into account the specific characteristics of each segment.

When addressing the coordination model of the banking system and the market should proceed from the fact that in the long term capital market has become a major source of long-term resources at the current stage of development will play a key role of the banking system. So far in Ukraine developed a model for the banking sector, which was based on the universalization of banking and impeded the effective development of specialized agencies (primarily investment and regional banks). The crisis revealed the natural boundaries of financial conglomerates. In particular, the universal bank model, which combines insurance, investment, retail component, was not able to resist the crisis impacts. Therefore, the overall simplification trend for financial institutions and financial instruments is partly unavoidable. Also inevitable is the wave of mergers and acquisitions, which results in the formation of large financial conglomerates, particularly at a multinational level. Given that in low market capitalization of developing countries, universal banks still have sufficient potential for growth performance and / or mass of profit, we can assume that in Ukraine for some time the trend towards the universalisation of banking, which requires: 1) support the stability banking system, 2) a clear settlement of property relations between banks and investment companies. For example, in Israel established rate at which banks should not own more than 5% of capital investment company. Recommendation for the development of capital market in Israel has highlighted the need to ban ability of banks — underwriters to affect pricing if they are creditors of companies that issue shares, limiting the market share of the buyer of securities to 20% (taking into account the share of companies which it controls); 3) the introduction of licensing of financial and pension products (issue of securities, payments for banking, services mutual funds, life insurance and pensions).

The separation of investment funds and banks need to reduce conflicts of interest between individual members of the capital market, decentralize financial management and increase competition. Meanwhile, numerous problems of the banking sector require directing the efforts of government to find sources of financial resources to restore long-term loans, liquidity of the banking system and the timely payment of external debts. The financial resources that can be used as a potential source of medium-and long-term liabilities of the banking system are funds withdrawn from the banking system during the crisis, state budget funds, unnecessary investment in foreign debt and equity financial instruments, investments of the funded pension system.

Their release is inextricably linked with the employment of institutional resources. These resources include unrealized potential of organizational and institutional development of the capital market, namely: 1) corporate bond market, that becoming a tool of transformation short-term resources of banks in long-term loans for companies, 2) syndicated lending, which can become an instrument of accumulation of resources, 3) the market of interbank financing, which reduces the need for banks in the accumulation of non-liquid assets and use the released tools for expanding credit supply, 4) financing of mergers and acquisitions in the banking sector which are potentially able to stimulate the process of recapitalization, 5) derivatives on foreign exchange market to hedge currency risk and thereby increase investment banks in the UAH assets.

Release and directing those resources should help to meet the challenges of the banking sector and build long-term resources of the banking system. This requires measures in the following areas: 1) development of mechanisms for refinancing (primarily long-term), 2) active development of financial instruments which allow to implement public investment programs (infrastructure bonds) and mechanisms of refinancing these bonds, and 3) ensuring equal access to the refinancing of all banks, regardless of their size, 4) implementation of a mechanism for long-term refinancing restrictions on use of funds in order to deal with significant inflationary consequences, namely, providing refinancing to commercial banks on the security of bills of solvent enterprises of the real sector, especially those sectors that can become the foundation of a new technological system; refinance foreign loans issued by Ukrainian banks for Ukrainian companies to purchase imported technology or equipment, refinancing of foreign currency loans issued by Ukrainian banks to individuals, if the use of funds granted for the purposes of capitalization, refinancing of export loans to domestic banks.

The following principles are key to the success of government activities: 1) use of international standards, 2) consistency between strategy and practice of regulation, that government's measures are implemented in line with overall strategy, but adequate to current situation, 3) openness and public clarity, based on regular publication of information, 4) coordination of government and legislature branches in the regulation of capital markets.

Implementation of regulatory measures for the listed areas and principles will ensure: 1) effective supervision and regulation of capital markets based on the general principle of allocation of resources and risk-management, 2) the correct assessment of risk and profitability of financial instruments, 3) the stability of the financial system for the prevention of crisis situations; 4) protection of consumers and investors through the implementation of European laws, organization and implementation of professional codes of 5) protection of the financial market of corruption and shadow-economy schemes to prevent the withdrawal of capital from the country through the use of tracking systems, warning and prevention of illegal operations, 6) provide discipline the market by maintaining its transparency; 7) to ensure international cooperation for the implementation of regulations adopted by the EU in cooperation with European supervisors, 8) training and professional level of capital market participants.

Therefore as the result of anti-crisis measures the capital market will not only survive, but also obtain a qualitative upgrade based on the synergistic effect of integration into CIS financial markets.

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Lyashenko S. V. Capital Market in Ukraine and Ways of Cooperation with the Countries of the Commonwealth of Independent States (CIS)

The problem of financial and capital market in Ukraine is relevant because of the need of real sector in extended financing. Before the 2008 capital market was in a stage of its active formation: banks, insurance companies, pension funds, stock market increased assets and financial stability. However, these improvements were not accompanied by an adequate transformation of the real economy, which led to conflicts in the saving and investing processes.

Key words: capital market, cooperation, financial stability, investing process.

Ляшенко С. В. Ринок капіталу в Україні і шляхи кооперації з країнами Співдружності незалежних держав (СНД)

Проблема фінансового ринку і ринку капіталів в Україні існує через потреби реального сектора в розширеному фінансуванні. До 2008 р. ринок капіталу був у стадії його активного формування: банки, страхові компанії, фондова біржа збільшили активи й фінансову стабільність. Проте ці вдосконалення не супроводжувало адекватне перетворення реальної економіки, яка призводила до конфліктів у процесах збереження і вкладення засобів.

Ключові слова: ринок капіталу, кооперація, фінансова стабільність, інвестиційний процес.

Ляшенко С. В. Рынок капитала в Украине и пути кооперации со странами Содружества независимых государств (СНГ)

Проблема финансового рынка и рынка капиталов в Украине существует из-за потребности реального сектора в расширенном финансировании. До 2008 г. рынок капитала был в стадии его активного образования: банки, страховые компании, фондовая биржа увеличили активы и финансовую стабильность. Однако эти усовершенствования не сопровождало адекватное преобразование реальной экономики, которая приводила к конфликтам в процессах сохранения и вложения средств.

Ключевые слова: рынок капитала, кооперация, финансовая стабильность, инвестиционный процесс.

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