PROBLEMS OF INFORMATION TRANSPARENCY IN THE ACTIVITY OF THE UKRAINIAN BANKING SYSTEM: ANALYSIS OF THE SITUATION BEFORE AND AFTER THE CRISIS

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SUMMARY:

This article describes the main factors influencing upon the today's Ukrainian banking system, such as financial stability, depositors' trust, informative transparency as well as rating systems. Some basic methods available in Ukraine, which are used for maintaining public ratings of commercial banks, are objects of this research. The main attention is paid to the problem of insufficient transparency of Ukrainian commercial banks in the period of crisis and after it.

INTRODUCTION

Free movement of huge financial amounts in the context of financial globalization but beyond the adequate control systems, which are able to forecast crises, significantly increases the risk of instability of banking and financial systems both in separate countries and in the whole world. However there are no uniform classifiers of indicators defining financial stability. These indicators depend on the dynamics and structure of the financial system of a particular country including the state of its institutional business. The connection between these components is determined by the financial stability indices.

According to the definition formulated by the International Monetary Fund, financial soundness indicators (FSI) are "indicators of the current financial health and soundness of the financial institutions in a country, as well as of their corporate and household counterparts, and FSIs play a crucial role in financial stability assessments. FSIs include both aggregated individual institution data and indicators that are representative of the markets in which the financial institutions operate... FSIs are a relatively new body of economic statistics that reflect a mixture of influences" [1;17]. It concerns both internal and external relationships of the financial system. On the other hand, it is financial system properly, the stability or resistance of which is meant in the concepts like "financial stability" or "financial resistance" used in some foreign scientific publications [1; 6]. The problem of financial instability and causes of banking crises was elucidated in many scientific publications issued in the recent decades.

The mechanisms of this crisis are described in numerous research papers by A. Demirguc-Kunt and E. Detragiache; the causes of financial instability are substantiated by F. Mishkin and some other scientists. However the peculiarities of the countries with transition economies are not taken into consideration in these surveys. Such countries have very specific causes of crises in their banking and financial systems. The analysis of these specific features is given in the works of some Russian and Ukrainian scientists, such as D. Voronin, Û. Žuravlěva, V. Mìšenko, O. Kìrêêv, M. Šapovalova, Ì. Karlova, Û. Kučins´ka, M. Mročko, Û. Tihan, K. Stempên´ and some others.

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1. THE LEVEL OF FINANCIAL STABILITY IN UKRAINE WAS RESEARCHED BY MEANS OF THE FOLLOWING PARAMETERS:

It is well-known that the causes of systemic banking crisis may be both quantitative indicators (various macroeconomic factors, such as internal gross product, inflation, balance of payments figures etc) and qualitative ones (the level of the shadow economy, the banking sector transparency, credibility, asymmetric information, etc.). The crises caused by the symptoms mentioned above may be different. Due to the nature of the international finance capital, they may involve the economy of some separate countries and regions as well as some particular groups. On the base of the analysis conducted by some foreign researchers, Dr. K. Stempel states that the stability of the financial system can be considered with the help of the two approaches to this category, namely the effectiveness of the financial system (including banks and their main functions) and the absence of the systemic risk. Some specific parameters, which analyze the regional peculiarities of financial stability of some countries including Ukraine, were investigated by some Ukrainian scientists like V. Mìšenko, O. Kìrêêv, M. Šapovalova, D.Popov, R. Lisenko. In Russia they were researched by Û. Žuravlёva. The analysis of these financial stability indicators concerning some particular countries showed that in the most of them (Austria, Brazil, Spain, Finland), this approach can be rather simple, which is mainly based on the dynamics of the financial results of banking sector. On the contrary, for such countries as Russia and Ukraine, this approach should be more expanded; it should contain a detailed forecast of the impact of some external factors including macroeconomic changes in the amounts of capital as well as the banking sector's assets quality. The list of indicators of financial stability for Ukraine was made by the National Bank of Ukraine on the recommendations of the International Monetary Fund. However, in practice it involves the compilation and dissemination of only 40 indicators of financial stability including 25 indicators for deposit corporation sectors and 15 indicators for customers of deposit corporation sectors, including other financial corporations (2 indicators), non-financial corporations (5 indicators), households (2 indicators), market liquidity (2 indicators) and real estate markets (4 indicators).
In general, the problem of insufficient transparency of the banking sector may cause the loss of customers' confidence in it. In our opinion, such an important factor as households' and corporate sectors' confidence in the banking system should also be taken into consideration in spite of the fact that it is not determined as an indicator of financial stability according to the recommendations of the International Monetary Fund. The appropriate attention to this factor is paid by A. Large, who defines the confidence in the financial stability. Defining this category in the book "What Is "Financial Stability" and How Do We Get It?" by M. Foot, the author nominated the main features peculiar to it. One of these parameters is the confidence, which is bound with:
- the stability of the monetary system;
- the employment rate close to the natural norm of employment in the economy;
- market players' confidence in financial institutions and markets;
- the absence of relative price fluctuations for real and financial assets, which may negatively affect the national monetary system and the level of employment.

This point of view is confirmed by such Ukrainian economists as M. Mročko and Û. Tihan. In their opinion, "the normal bank activity is impossible without the citizens' trust in the state and its financial system, without trust of the business units in each other as well as without trust of the government and business in every individual member of the society".

According to their research during the period of mass population outflow of deposits from the banking system, namely in November 2008, the public trust in banks of Ukraine comprised only 11.7% whereas the distrust was 56.4%. At the beginning of 2009, the distrust sprung to 79.6%. In "Banking crisis and Contagion: Empirical Evidence" by E. Santor, the author considers the dissemination of banking crisis as an infection as well as the banking epidemic due to the impact of illiquid banks on the other ones through the interbank payments and interbank crediting. Another reason for this infection is the emergence of the so-called negative "gregarious" behaviour of depositors and investors when they receive any information about these events. F. Miškin shares the same opinion, stating that the "financial instability emerges when the financial system is rather vulnerable, which is accompanied by information flows, therefore it cannot transform savings into investments". Under such conditions, according to Ukrainian economists Ì. Karlova and Û. Kučins´ka, the main reason for the cri-

sis of liquidity of the Ukrainian banking system was the raiders' attack on the "Prominvestbank". Various mass media were used as the main weapons, with the help of which "the information attack on the bank caused the destabilization and deregulation of the banking system."

Currently, the National Bank of Ukraine composes and distributes the information about indicators of financial sustainability only once a quarter although it receives daily operational reports. These data concern the sector of deposit-taking corporations (banks) with 12 basic and 10 recommended ones. Thus, on the one hand, the "ordinary" bank customers can get acquainted with the full information analysis of financial stability of the banking system according to the 40 main parameters only on the website of the International Monetary Fund, which cannot be regularly updated. On the other hand, some up-to-date information about the level of transparency of the banking system is currently provided by rating agencies only, not by the main regulator of Ukraine. For example, during the period of escalation of the crisis, the international rating agency Standart & Poor's and the Agency for Financial Initiatives published the results of investigation of transparency of the 30 largest banks in Ukraine, whose assets constitute 80% of the banking sector according to the criteria of the ownership structure, corporate governance, as well as the financial and operational information. In the publication mentioned above, the average informativeness of the Ukrainian banking system comprised only 41%. Unlike Ukraine, the Central Bank of Russia prepares the publications concerning the reviews of financial stability using the recommendations of the International Monetary Fund and «Dangerous markets».

One of the main preconditions of transparency of the national monetary policy consists in the publication of complete annual reports issued by commercial banks as well as their interim quarterly reports and the main official document "The Basic Principles of Monetary Policy" compiled by the National Bank of Ukraine.

That means that, according to the principles formulated by V. Mìŝenko, A. Somik and Ì. Šumilo, with which we also agree, the basic transparency instruments of monetary policy should include non-public results of analysis of the activity of commercial banks conducted by the National Bank of Ukraine according to the CAMEL rating methodology. The only purpose of these instruments must be ensuring the stability of the Ukrainian currency, i.e. hryvnya.

2. THE TRANSPARENCY OF THE FINANCIAL SYSTEM POLICY CONSISTS IN THE ACTIVITY OF NON-STATE RATING AGENCIES

However, the global financial crisis proved the necessity of the practical application of deposits reliability ratings and their publication by some banks in order to eliminate the strained socio-psychological situation bound with the massive outflow of deposits from the leading banks.

One of the innovators, who initiated this rating at the end of 2008, was the national rating agency called "Credit-Rating". This is the first Ukrainian specialized rating agency founded in 2001, which provides services concerning the independent assessment of creditworthiness of corporate entities according to the national rating scale.

Since 2003, the ratings of this agency are officially recognized by Ministry of Finance of Ukraine. Since 2004, "Credit-Rating" is an authorized agency of the State Commission on Securities and Stock Market of Ukraine for granting credit ratings to business entities, industries and regions. Since 2007, the agency provides the services in giving corporate governance ratings. In 2010 the agency became a founding member of the European Association of Credit Rating Agencies (EACRA).

In the period of financial crisis, the proposed methods found their practical application in only 75 commercial banks, whereas it is only 18 banks, which agreed to release this information. In the present time, the top-information of only 20 banks among the 195 officially registered ones (01/12/2010) is available on the website of the agency. The methods of grating these ratings deserve the attention not only because of the selected criteria and the possibility of periodic updates, but also the conditions of grating these ratings.

The approach of this rating agency remains reasonable concerning granting these ratings only to the banks, which have already undergone the rating procedures.

Because of the fact that the methodological tools are confidential information inside the agency, it is only some basic criteria of bank deposit reliability ratings, which can be given in Table 1. Another method of quarterly ratings is presented by the advisory council of the newspaper "Ekonomìčna pravda" (the Economic Truth) in terms of security deposits in Ukrainian banks. This approach is based on admitting the chief contributor's task, i.e. saving rather than increasing profits in the period of the crisis. Thus, the assessment of the fi-

nancial stability instead of deposit rates assessment plays a priority role in choosing a reliable bank by an investor.

The rating of the attractiveness of banks for depositors is an information project, the purpose of which is a comprehensive evaluation of the largest assets in the banks of Ukraine, because it takes the most important factors into account — first of all, it concerns the attractiveness of these banking institutions for the investors, which can be calculated on the basis of public information. This rating is based on the analysis published by the National Bank of Ukraine and the Association of Ukrainian Banks concerning the financial reporting of the institutions as well as the analytical forecasts of the prospects of their financial stability.

Table 1

The basic criteria of granting bank deposit ratings to commercial banks

№	Basic criteria	Description
	The basic criteria of granting bank deposit ratings to commercial banks	
1	Bank liquidity	It describes the ability of a banking institution to pay deposits, which is important for the reduced access to loan resources. In assessing liquidity, the share of highly liquid assets in net assets is analyzed as well as the fast liquidity index.
2	Structure, concentration and stability of the resource base	In assessing the quality of resources, the bank dependence on unstable liabilities is taken into account, as well as the bank's own liabilities and the dependence on certain creditors.
3	Diversification and quality of assets	The share and the trend of problem debts are evaluated, as well as the level of coverage of available reserves and the concentration of investments.
4	Efficiency	It describes the quality management of resources.
5	Degree of bank sensitivity to the adverse economic or political factors	In its analysis, the degree of the bank dependence on some operations, markets or industries is investigated; the trends and prospects of their development are analyzed.
6	Possibility of support and the ability to attract resources	The analysis is conducted in the following areas: - availability of the shareholders' support; - probability of obtaining loans from the National Bank of Ukraine; - possibility of involving the costs on the interbank market; - possibility of involving the costs by means of the stocks emission; - possibility of involving the costs from international markets.

In preparing the rating methodology, the following factors determining the attractiveness of banks from the investor's point of view are taken into account:
- The long-term inflow or outflow of deposits;
- Sufficiency of capitals;
- Liquidity of a bank;
- The level of foreign or state support;
- The efficiency of the bank activity;
- The current flow or outflow of deposits;
- The current increase or decrease in property assets;
- The financial results, which may consist in either profit or loss;
- Changes of the trust from the partner banks;
- The coefficient of consistency.

The expert council of "Ekonomìčna pravda" defines the importance level of each of the proposed factors by assigning the weighting factors, the sum of which equals to one.

The existing level of transparency of the banking system of Ukraine, which is represented by the following method of calculation factors, reflects the comprehensive appeal of bank depositors most adequately in Table 2.

Each factor before defining its importance, received the points from 1 to 4. The points depend on the range, which includes the value of the indicator reflecting the quantitative content of the factor. For example, if the factor consisting in the long-term inflow of deposits in the bank and expressed by the "yearly deposit growth" index, is more than 30%, such a bank receives the highest number of points, i.e. 4. If it is less than 30% but higher than zero, it receives 3 points. If the value is in the range between zero and -30%, it gets 2 points. If the fall of deposits was over 15%, the bank re-

ceives the lowest point, i.e. 1. The obtained score is multiplied by the factor weight. The amount of total credit for each bank is calculated by means of adding the numbers obtained from the multiplication of points by the weight of each factor. The bigger the value of the overall ranking is, the more attractive this bank is for depositors. The rating table is made up on the base of ranking of the banks, which participate in the rating, in order of decrease of the sum in the general ranking (ZZ).

Table 2

Factors and calculate of the rating formula factors

№	FACTOR	INDEX	FORMULA *
	Factors and calculate of the rating formula factors		
1	The long-term inflow or outflow of deposits	A yearly increase of deposits	$\dfrac{DEP - DEP.\,mp}{DEP.\,mp}$
2	Sufficiency of capitals	The capital sufficiency ratio	$\dfrac{WD}{CHA}$
3	Liquidity of a bank	The liquidity ratio	$\dfrac{GK}{CHA}$
4	The level of the foreign or state support	State property or entering an international financial group	-
5	The efficiency of the bank activity	Profitability of owner's assets	$\dfrac{FR}{WD}$
6	The current flow or outflow of deposits	A quarterly increase of deposits	$\dfrac{DEP - DEP.pp}{DEP.pp}$
7	The current increase or decrease in property assets	Changes of owner's asset once in a half-year	$\dfrac{WD - WD.pp}{WD.pp}$
8	Change of trust from partner banks	The quarterly dynamics of assets from other banks	$\dfrac{KB-KB.pp}{KB.pp}$
	General ranking	The total points of factors concerning the coefficient of importance	ZZ

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*Special marks used in the formulas:
Dep. – deposits;
KB – money from other banks;
WD — property asset;
CHA — net assets, i.e. the bank's assets minus the amount of reserves of active operations;
GK — monetary resources, i.e. the money in the National Bank and other banks including cash;
X. pp — the X-Score six months ago;
X. mp — an indicator of the X-Score on the same date in 2008;
** — The banks recently recapitalized by the state received 1 point, not 4 (taking into account the incompleteness of the process of restructuring and maintenance of vagueness concerning their future).
ZZ — general ranking.

After this, depending on a range received by each bank, the four rating groups of banks are distinguished. Each group receives a special category in the form of the Latin letters (a, b, c or d). The criteria of the rating categories are shown in Table 3.

Table 3

Criteria of appropriation of rating categories

Value of sum for general ranking (ZZ)	Category of rating	Description of category
	Criteria of appropriation of rating categories	
3,8 and more	A	A high level of attractiveness for depositors
from 2,9 to 3,79	B	A middle level of attractiveness for depositors
from 2,00 to 2,89	C	A satisfactory level of attractiveness for depositors
from 1,00 to 1,99	D	A low level of attractiveness is for depositors

Thus, after presenting the two alternative approaches of determining the rating of attractiveness of bank, the potential and present depositors of banks are able to choose a certain financial institution. However there is a problem that only a small number of banks (10-15%) agree to open these results of rating. That may cause the restrictions of transparency concerning the giving the clients exact information about the financial conditions of a particular bank.

CONCLUSION

The absence of sufficient transparency of functioning of the money and credit system both on the base of insufficient determination of indicators of financial stability on the one hand and on the basis of impossibility of introduction on the legislative level of the uniform rating methods of reliability of deposits with status of the obligatory public information on the other hand, is one of factors, which displays the criterion of asymmetry of information. That consists in the mistrust to the financial sector. As a result, the bank panic among depositors appears.

These factors make the depositors withdraw their savings from the banking system because they are unable to feel any difference between "bad" and "reliable" banks. Therefore, the crisis may ruin the whole system the same, i.e. a local crisis may be transformed into a system one.

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