

FINANCIAL MODERNIZATION IN THE PANDEMIC COVID-19

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Modernization process in financial sector, but in order to obtain the effect it should be adjustable. The digitalization of financial sector results in creation new possibilities for all industries, improve customer interactions, start the digital transformation in the banking sector. Regulator globalization should serve the governments that are the recipients of financial flows and new technologies. Managing the global capital system aims at ensuring the relations coordination based on the information exchange. The volume and direction of signals from other systems should be directed on of maintaining consistency in investment demand and supply signals. The purpose of the system is effective use of the global financial system advantages.

Modernization of institutions requires consistent creation and functioning of the institutional system, aimed at the definition of property rights in society, stimulates the development of competition and reduces transaction costs.

In Western Europe it became widespread approach of imported Western-style modernization, which focuses on the construction of new institutional economic incentives that can change human behavior. The opposite view is held by the authors, relating the particular appearance of several models of development and modernization in traditional societies, such as India, China, etc. with processes taking place in Eastern Europe.

The role of the financial institutions in modernization in Ukraine

To understand the mechanism of global interdependence on the basis of financial parameters of contemporary development there is identified a number of trends that describe the trajectory of global imbalances and provides the base for financial crisis analysis. These include a significant increase in international financial integration, especially in advanced economies, a sharp widening of the global imbalances that have become a reality of today's economy, differences in profitability between external assets and liabilities, resulting in a significant movement of capital and other resources among countries.

The main ways of financial investment in foreign countries are the commercial loans, official cash flows, foreign direct investment and portfolio investment. Foreign companies and the governmental institutions use lending to banks in order to obtain commercial loans. International financial institutions and governments of developed countries provide policy of financial support for developing countries.

It should be noted the trend of transformation of national banks in the TNBs, performing the function as an intermediaries for its clients, and to place the capital outside the home country.

Under the influence of turbulence and unpredictability factors of the international financial system, the collapse in commodity prices and the deterioration of the macroeconomic situation in Ukraine the following trends have been noted: the decline of confidence in the banking system; the growth of debt to financial institutions; increase of the number

of loan defaults; difficulties with paying for the previous loans, etc. Small share in total credit investment in national economy as long-term innovative lending restrict following factors: high level of interest rate on bank loans; high credit risk, changes in interest rate, liquidity; mostly current and short-term nature of bank liabilities; limits on refinancing in the National Bank of Ukraine.

The main problem, faced by the Ukrainian banks in 2014, is the outflow of deposits. Due to the outflow, banks began to undergo lack of liquidity, which aggravated apprehensiveness among depositors. During 2014, according to the National Bank of Ukraine data, the drop in GDP was 7.5%, and the devaluation of the hryvnia has reached 100%, the consumer inflation rate rose to 25%. The banking system has lost a third of all deposit deposits, and foreign exchange reserves of the country decreased to 7.5 billion dollars. Industrial Production in Ukraine averaged -1.66 percent from 2000 until 2015, reaching an all-time high of 17.60 percent in April of 2010 and a record low of -33.80 percent in January of 2009. It is known that since the beginning of the year the banking system has lost about 110 billion UAH deposits. Because of this, a lot of banks have been forced to impose restrictions on payments and cash withdrawals, causing distrust of depositors in the system exalted. The situation was worsened by the fact that a number of banks as a result of liquidity problems were found to be insolvent.

The second problem arose due to the losses incurred in course of hostilities. The annexation of the Crimea and the military operations in Luhansk and Donetsk regions caused the panic among Ukrainians; hence the devaluation of the hryvnia reinforced and was followed by the outflow of deposits. Essentially, the banks lost their assets in the Crimea and in Luhansk and Donetsk regions.

Bearing in mind the main problems of the banking system of Ukraine in 2014, we can consider the main reasons for people's distrust of it. Firstly, the distrust is caused by financial ignorance of the population. Many individuals, not having analyzed the problem, immediately begin to make hasty conclusions, panic, thus weaken the banking system. Secondly, due to the outflow of deposits from banks lack of liquidity began. Many banks were forced to impose restrictions on payments and cash withdrawals, which negatively affect depositors' confidence in the system as a whole.

In 2015, industrial production fell by 13.4% in Ukraine. The main industrial potential is concentrated in the Eastern part of Ukraine. Banks are members of the innovation process, providing not only funding it, but also communication between all stakeholders: government, investment and innovation funds, scientific and technical institutions and consumers.

Due to the reduction in the ability of banks to create financial instruments after the financial crisis corrections transactions in the bond market were intensified. Instability of the financial system has increased. The growth of currency devaluation is accompanied by increased costs of the banking sector. The bank interest expenses rise forcing them to pursue a policy of prolonging and restructuring of loans, offering customers credit vacation, and in a number of banks the introduction of the temporary administration and the beginning of the liquidation process has been noted. This forces financial institutions to reserve more funds. Capital adequacy ratio (H2) in the entire banking system has reached 15.87% at the end of 2014, although at the beginning it was equal to 18.26%. Lowering of the regulatory

capital adequacy index may violate norms of compulsory redundancy and reduce the reliability of the banking system in the fulfillment of obligations to clients. In particular, there was a decline of banks stock in the norm of "large loans", which was caused by the concentration of the loan portfolio in the financial institutions that service specific business - groups. The maximum size of credit issued to one person, was 22.92%, while the standard in 2014 was not more than 25%.

Dynamics of loans and deposits in Ukraine for 2012-2016 years increased moderately (Fig. 1). Attention is drawn to the fact that the lower volume of loans by deposits, i.e. temporarily free financial resources sufficient to ensure that fully meet the needs of the economy. However, the biggest gap between the volumes of deposits and loans is in the study period at the end of 2015 - 27.1%.

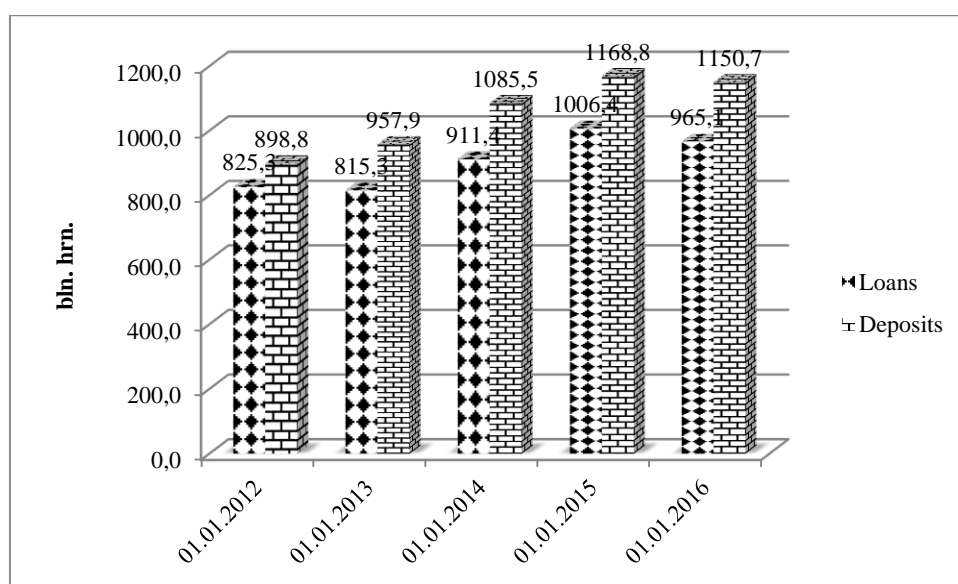


Fig. 1. – Dynamics of loans and deposits of individuals in the money market Ukraine (The National Bank Ukraine data, 2016)

In the analyzed period, deposits of individuals exceed deposits of economic entities and form quite a significant positive trend (Fig. 2).

The largest gap between the volume of retail deposits and deposits of economic entities are witnessed at the end of 2013 (45.8%). Thus, the financial market is gradually formed positive trends in terms of redistribution of temporarily free financial funds, temporarily free financial resources in the economy are supplied by individuals, i.e. households. In Ukraine, the commercial banks may act as issuers of treasury shares, bonds, notes, certificates of deposit and other securities, as investors buying securities for its own account and also have the right to conduct brokerage operations with securities

In order to restore the people's trust in the banking system Ukrainian finance specialists should forecast potential problems and understand their severity, timely react to them, and find right solutions. Moreover, Ukrainians themselves must make significant efforts to improve the situation in their country, try to achieve mutual understanding, and provide confidence and stability of financial institutions.

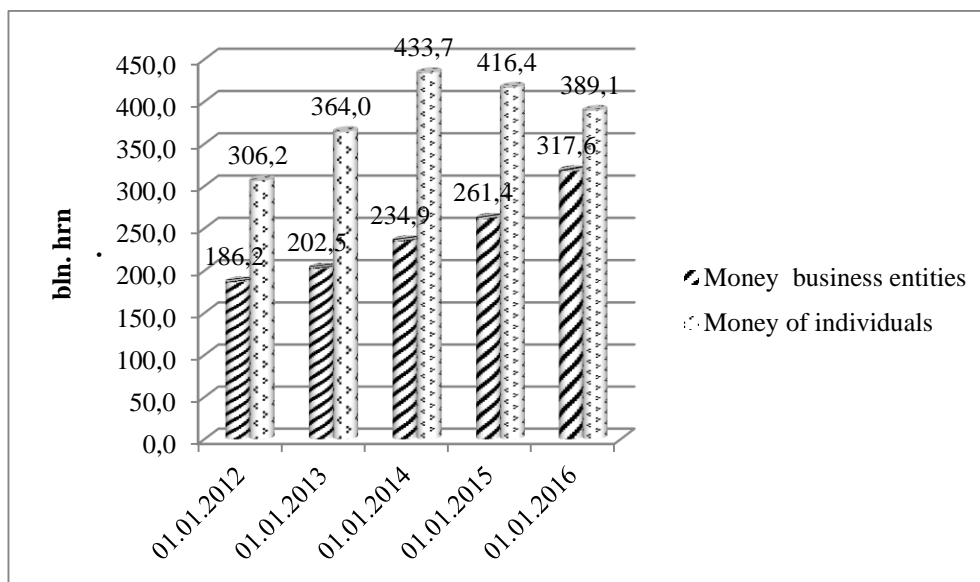


Fig. 2. – The dynamics of deposits of economic entities and individuals (The National Bank Ukraine data, 2016)

Investigation of globalization effects on economic development shows the existence of contradictory tendencies, promoting growth or leading to economic regress. As a result of capital formation and financial markets improvement one can mention significant changes in the financial sector, followed by the movement of large amounts of financial resources flows. Capital mobility determines the production efficiency and scientific, technical cooperation, and stimulates the development of factors of production. Activating the role of the state as a regulator of the modernization process: restructuring, capital flows in modern high-tech industries, financial capital attraction in the form of portfolio investment in financial sector may create conditions for the country's economic breakthrough to the new development trajectory.

Qualitative changes analysis show the existence of speculative and insurance operations resulting in changes in the role of financial institutions in the service of the real economy. Study of globalization peculiarities and financial sector aims at coordinating and harmonizing the activities of international financial institutions to provide global financial stability, and reduce world tension. The basic tendencies defining the world development trajectories stimulate improvement of the quality of international financial institutions.

Further study of the features of the modernization and the role of the financial institutions will be focused on the coordination and harmonization of the action of international financial institutions to reduce uncertainties and turbulence in the financial market. The problem of Eastern European countries is to use the model of modernizing financial institutions, taking into account national specificities of these countries.

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ФИНАНСОВАЯ МОДЕРНИЗАЦИЯ ПРИ ПАНДЕМИИ COVID-19

Статья посвящена анализу различных подходов к финансовой модернизации в условиях пандемии COVID -19. Ученые указывают на современную тенденцию завершения эпохи финансиализации. Цифровизация финансового сектора приводит к созданию новых возможностей для всех отраслей экономики и сопровождается интенсификацией финансовых операций. Применение принципа сетевого взаимодействия между экономическими агентами внутри фирмы, межорганизационными сетями и транснациональными ассоциациями определяет.

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Для научных работников, докторантов, аспирантов, действующих практиков и студентов учреждений высшего образования, изучающих экономические дисциплины.

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