

**THE IMPACT OF FOREIGN CAPITAL ON THE BANKING SYSTEM OF  
UKRAINE**

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Nowadays the economic development of any country largely depends on its participation in international relations. As international experience shows, no country has managed to create a perfect economy in complete isolation from the world economic system. With regard to Ukraine, under conditions of globalization and European integration processes it also cannot develop its economic system apart from other countries. A strong influence of financial globalization on national economy is a characteristic feature of modern international economic relations. The intensification of integration process in the financial markets, competition for capital access, technology mediation development, financial instruments standardization and free movement of capital are the reflection of these processes. Financial globalization and integration, that causes aggravation of the international banking competition, deals with the origin of some positive factors of influence. At the same time, global financial crisis provoke crisis on domestic banking markets. In this context, the investigation of globalization processes impact on the banking system of Ukraine, which stipulates the need to study the impact of foreign capital on the Ukrainian banks is certainly important.

Despite the increasing relevance of the impact of globalization and integration processes in the development of the domestic banking sector, a range of issues require further research in this direction.

The aim of this publication is to analyze the positive and negative consequences of the foreign capital impact on the banking system of Ukraine and to examine the measures concerning the minimization of its negative impact.

The rapid development of the banking sector and economic growth in Ukraine turned the domestic banking market into one of the most attractive for capital in Eastern Europe. Moreover, coverage of Ukraine by foreign capital is determined by the peculiarities of its development. The process of financial globalization and integration acquired particular manifestation by foreign capital entering through the purchase of Ukrainian banks, their acquisition or creation of new banks with foreign capital. This process deals with the emergence of its possible influence on the development of national financial systems.

To determine the effects of the foreign capital expansion on the banking sector of Ukraine it is worth using the indicator that characterizes the participation of foreign capital in the banking system of the country. According to the Law of Ukraine "On Banks and Banking", the bank with foreign capital is a bank in which the share capital that belongs at least to one non-resident exceeds 10%.

During the period from 2007 to 2013 the number of banks with foreign capital in the domestic banking system increased by almost 1.5 times, while the number of Ukrainian banks decreased by 1.05 times. Thus, banks with foreign capital are oriented not only on the forward, but intensive strengthening of their market positions.

The existence of foreign capital in the banking system of Ukraine has both positive and negative consequences. Among the wide range of advantages concerning operations of banks with foreign capital in Ukraine, it is worth mentioning the following:

1. The growth of foreign capital has a positive effect on the economy of Ukraine, as it accelerates the development of financial markets, expands the range of services and their quality.

2. Foreign capital attraction facilitates the rapid implementation of advanced banking technologies, new methods of conducting the banking business, including the use of experience in financial management, anticrisis management and advanced marketing techniques.

3. The implementation of the international experience in running the banking business and the settlement of international financial transactions.

4. The reduction of banking services. Foreign banks may become an important source of long-term financing of capital projects and they also may provide enterprises with necessary loans at lower interest.

5. The intensive growth of competition in the market of banking services that results in the improvement of the efficiency in the banking system, extension of the range of high-quality banking services and increase in the qualification level of bank employees.

Unfortunately, regardless of the positive impact of foreign capital on the domestic banking system, there also exists a negative one, namely:

1. The increased dependence of the economy, including the labor market and budget, on the effective work of investors.

2. Additional risks for the banking system: the risk of bankruptcy of the parent bank as well as the possibility of social, economic and political risks.

3. The country's political dependence on foreigners may hypothetically be increased.

4. The possible uncontrolled capital outflow from the country, as shareholders of banks with foreign capital generally invest in those sectors and countries, where revenues and security are the highest.

5. The presence of foreign banks may weaken the position of the country's banking system as it has not been developed yet in a proper way. Local banks that are unable to compete with foreign banks go bankrupt, and that leads to financial instability in the country.

Having analyzed all the positive and negative consequences of the foreign capital impact on the banking system of Ukraine, we can conclude that the appearance of banks with foreign capital in Ukrainian market is rather ambiguous. In order to minimize the possible negative consequences caused by foreign banks, the National Bank of Ukraine and the Verkhovna Rada should:

- improve the regulation and supervision of banks with foreign capital;
- regulate the activities of foreign branches and calculate the economic standards;
- develop a set of documents concerning the complex regulation of conditions for organization, coordination, supervision and liquidation of foreign banks' branches;
- amend the antitrust laws to prevent the monopoly abuse in case of the concentration of a large share of banking services market in the foreign banks' branches;
- establish the standards of foreign capital participation in the total capital of the banking system of Ukraine at the level of 25% in order to resist the competition from foreign banks.

Thus, processes of globalization and integration have important impact on the banking system of Ukraine because of its openness. The manifestation of these processes is the expansion of foreign capital in the domestic market. Bank capital, both domestic and foreign, if it operates in Ukraine should provide effective development of national economy in accordance with policy directions established by the government. It is the state policy that should consider all the advantages of foreign capital impact on the banking system of Ukraine and avoid the possible risks.