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RESEARCH OF BANKING SERVICES IN THE SPHERE OF FOREIGN ECONOMIC ACTIVITY

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Rahman M. S., Mangushev D. V. Research of Banking Services in the Sphere of Foreign Economic Activity

The article is dedicated to studying theoretical foundations and current state of foreign economic activity in banking and financial institutions and its improving by the example of PJSC CB "PrivatBank". In the course of the research the main development directions and types of banking services in the sphere of foreign economic activity are determined, the causes of the instability in the functioning of the banking system of Ukraine and the impact of exchange rate fluctuations on the activity of the banking sector and the economy in general are revealed. The paper analyzes the services rendered in the sphere of export-import operations and currency risk management using the example of the commercial bank "PrivatBank". Furthermore, the recommendations for the improvements in the banking system are provided.

Keywords: bank, Ukraine, foreign trade, analysis, CB "PrivatBank", currency exchange rate, currency risks, recommendations.

Fig.: 6. **Tbl.:** 3. **Bibl.:** 8.

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Рахман М. С., Мангушев Д. В. Дослідження банківських послуг у сфері зовнішньоекономічної діяльності

Стаття присвячена дослідженню теоретичних основ і сучасного стану зовнішньоекономічної діяльності банківських і фінансових установ та її вдосконаленню на прикладі ПАТ КБ «Приватбанк». Визначено основні напрямки розвитку і види ЗЕД банківських послуг і виявлено причини нестабільності функціонування банківської системи України, вплив коливання валютного курсу на банківську діяльність і на економіку країни в цілому. Проаналізовано надання послуг у сфері експортно-імпорتنних операцій та управління валютними ризиками на прикладі комерційного банку «ПриватБанк». Для поліпшення ситуації в банківській системі наведено рекомендації.

Ключові слова: банк, Україна, зовнішня торгівля, аналіз, КБ «Приват-Банк», валютний курс, валютні ризики, рекомендації.

Рис.: 6. **Табл.:** 3. **Бібл.:** 8.

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Рахман М. С., Мангушев Д. В. Исследование банковских услуг в сфере внешнеэкономической деятельности

Статья посвящена исследованию теоретических основ и современного состояния внешнеэкономической деятельности банковских и финансовых учреждений и анализу банковских услуг на примере ООО КБ «Приватбанк». Определены основные функции банков и виды банковских услуг в сфере ВЭД; рассмотрено современное состояние структуры банковской системы Украины в динамике; выявлены причины нестабильности функционирования банковской системы Украины и влияние колебания валютного курса на деятельность банковского сектора и на экономику страны в целом. Проанализированы услуги, предоставляемые в сфере экспортно-импортных операций, и управление валютными рисками на примере коммерческого банка «ПриватБанк». Для улучшения ситуации в банковской системе приведены рекомендации.

Ключевые слова: банк, Украина, внешняя торговля, анализ, КБ «ПриватБанк», валютный курс, валютные риски, рекомендации.

Рис.: 6. **Табл.:** 3. **Библ.:** 8.

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The banking system as a specific economic and legal structure provides its own special methods and tools for the functioning of the money market. Moreover, it is a first-order condition for growth of the economic efficiency, since it plays a leading role in ensuring the level of savings and investments in order to gain a strong position in both domestic and world markets. Both domestic and foreign participants of foreign economic relations: exporters, investors and borrowers in the foreign market, international financial and industrial group with participation of Ukrainian capital, and others are interested in the improvement of banking of foreign economic activities.

Issues related to foreign banking activities are considered in works of Russian scientists: M. Agarkov, I. Gurievich, A. Ioffe, L. Hole, E. Fleyshts, Z. Shkundyna, Y. Basin, A. Didenko, and domestic researchers: O. Vasyurenko, O. Vovchak, V. Heyets, M. Denisenko, A. Dzyublyuk, M. Didkivskiy, B. Lutsiv, A. Moroz, A. Peresada, S. Reverchuk, M. Savluk, and others.

The aim of the research is to study the theoretical foundations and current situation of foreign banking and financial institutions' economic activities by the example of PJSC CB "PrivatBank".

Determining factors in improving the competitiveness of a particular country in the international arena do not only include the current level of economic development but also the degree of integration of its banking system in international economic relations. That is why challenges and trends for financial development and foreign transactions of banks in Ukraine, including PJSC CB "PrivatBank", need further consideration.

The current operation of the financial institutions on servicing foreign trade activities provides totality of interactions between the banking systems of different countries. One of the factors contributing to a successful functioning of Ukraine's foreign trade sector is providing it with effective bank servicing.

Banking operations in the global market are carried out through international banking departments, offices, branches and subsidiaries abroad as well as joint banks and offshore banks. Being an important link in international trade, banks, through providing a number of services to clients-traders, implement the following tasks:

- ✦ rendering maximum services to clients: exporters / importers;
- ✦ reducing the risks of international transactions;
- ✦ **providing for foreign exchange earnings of the client, bank and country as a whole.**

Operations on the financing of foreign economic activities include counseling; assistance in choosing payment terms, making cashless payments, providing bank guarantee, hedging foreign currency risks, crediting foreign operations, including those in the form of factoring and forfeiting (Fig. 1).

Types of banking services provided in the sphere of foreign economic activities include: direct and indirect funding, crediting and reducing export taxes, insuring (Fig. 2).

According to the annual report of the National Bank [2], as on 01.01.2015 in the State Register there were 181 bank, of which 163 had the banking license (among them there are three state ones – JSC "Oschadbank", JSC "Ukreximbank", JSC "Goszembank"), including 51 bank with foreign capital, and 19 banks with 100% foreign capital (Fig. 3) [4].

The Ukrainian banking system in 2015 faced the following challenges:

- ✦ deficit of foreign currency and speculations in the currency market;
- ✦ high risks of devaluation and outflow of deposits;
- ✦ testing the quality of shareholders;
- ✦ introduction by the National Bank of its temporary administration and curators to many banks;
- ✦ presence of assets of questionable quality;
- ✦ unscrupulous bank managers;

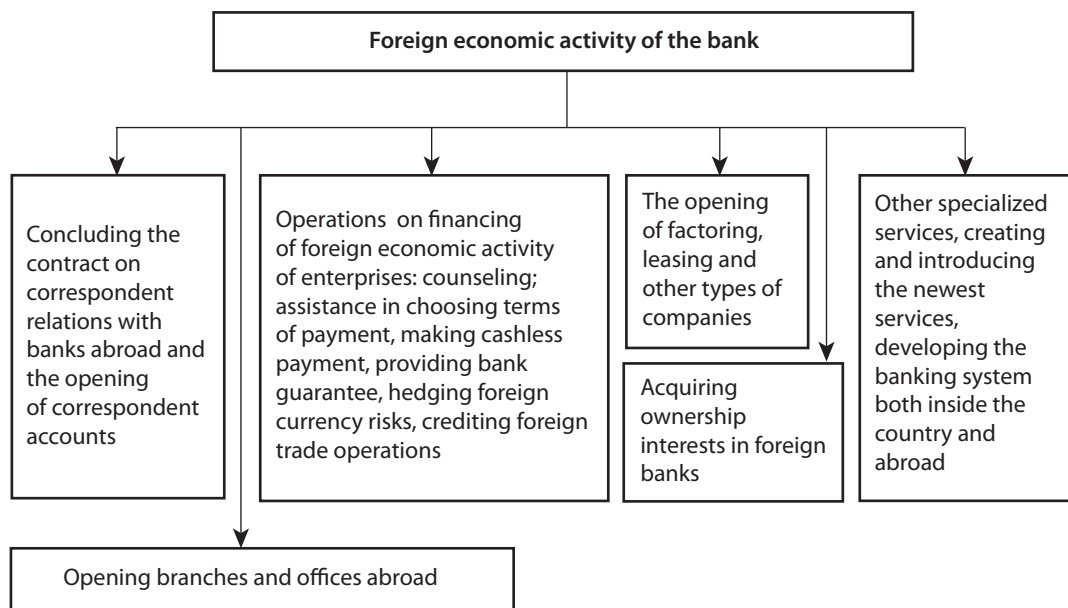


Fig. 1. Foreign economic activity of the bank

Source: developed on the basis of [1–3].

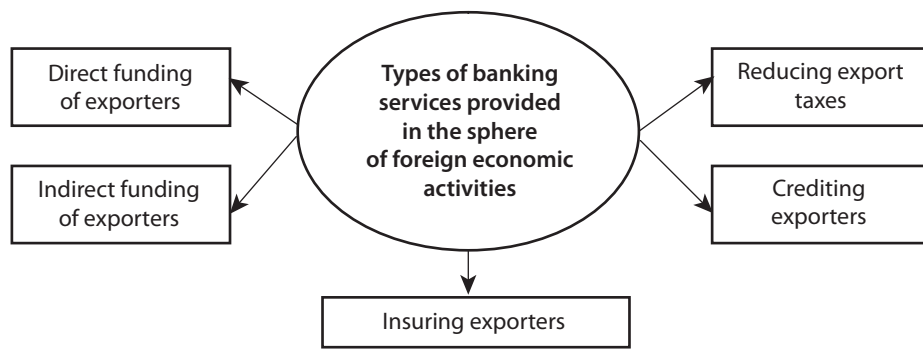


Fig. 2. Types of banking services provided in the sphere of foreign economic activities

Source: developed on the basis of [2; 3].

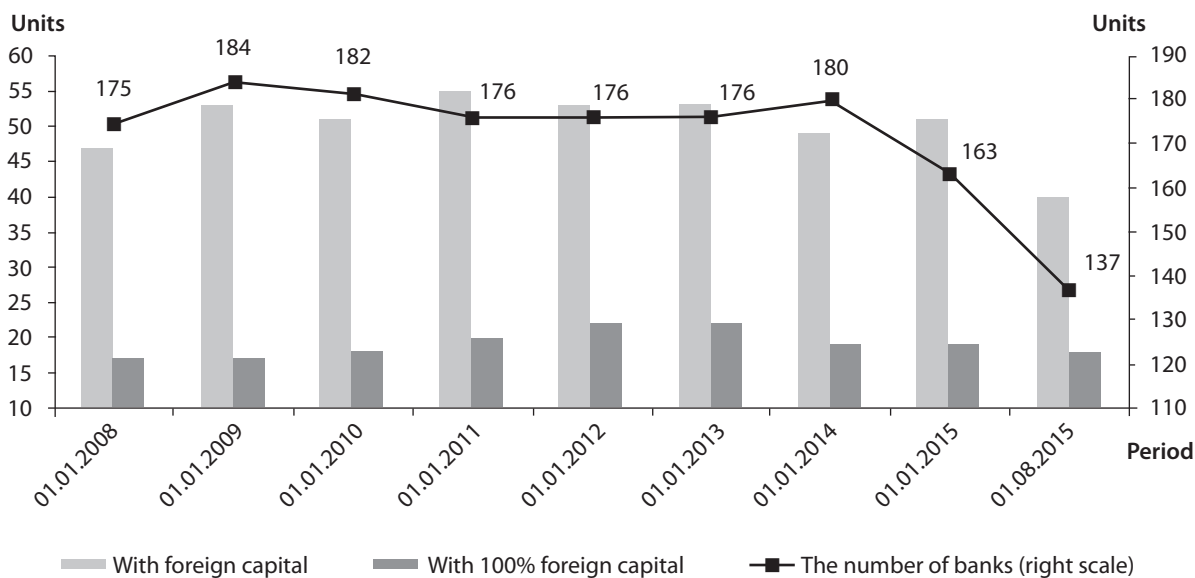


Fig. 3. The dynamics of development of the banking system in Ukraine for 2008–2015, units

Source: developed on the basis of [4].

- ✦ illegal transfer of capital abroad;
- ✦ significant decline of profitability of the banking sector;
- ✦ lack of liquidity, etc.

Considering the dynamics of money transfers to Ukraine on a quarterly basis for the 2014–2015, it should be noted that there observed the growth in the transfer volume on average by 4.5% against Quarter I of 2014 each quarter until Quarter IV (Fig. 4) [4; 5]. The existing instability in the dynamics of remittances indicates the emergence of the problem of the increasing of reliability and timeliness of funds transfers from one economic agent to another.

The reduction of export in 2014 was followed by a decline of the investment attractiveness of the country under conditions of the growing uncertainty and high political and economic risks and capital outflow. The substantial deterioration in market expectations with a simultaneous increase in demand for foreign currency increased its deficit. The dynamics of indices of the Ukrainian interbank currency market in 2014 was formed under the influence of the complex political situation in the country and the military conflict in its eastern areas, which share in domestic exports have traditionally accounted for over 20%.

The net demand for non-cash foreign currency in 2014 amounted to almost 10 billion in US dollar equivalent, and the hryvnia against the US dollar at the official exchange rate weakened its position by 97.3%. Let us consider in more detail the dynamics of change in the weighted average rate in the Ukrainian interbank currency market for January-September 2015 (Fig. 5) [5] and its impact on foreign economic activity of banks.

The sharp rise of the exchange rate in February and relative stability of its performance in the following months ensured the stability of export-import bank operations. The exchange rate growth led to new currency shortages again.

The main problem of modern commercial banks in Ukraine is ensuring financial stability of the banking system as a whole. In this regard, for further normal functioning of the banking system it is necessary not only to think about the loans taken from IMF, the World Bank and others but also about their reimbursement.

PJSC Commercial Bank “PrivatBank”, founded in 1992, is a leader of the banking market in the country (19.5 mln depositors with a market share of 26.4%), which is referred to banks of the “second wave” [6]. According to the British magazine “The Banker”, “PrivatBank” holds the 8th

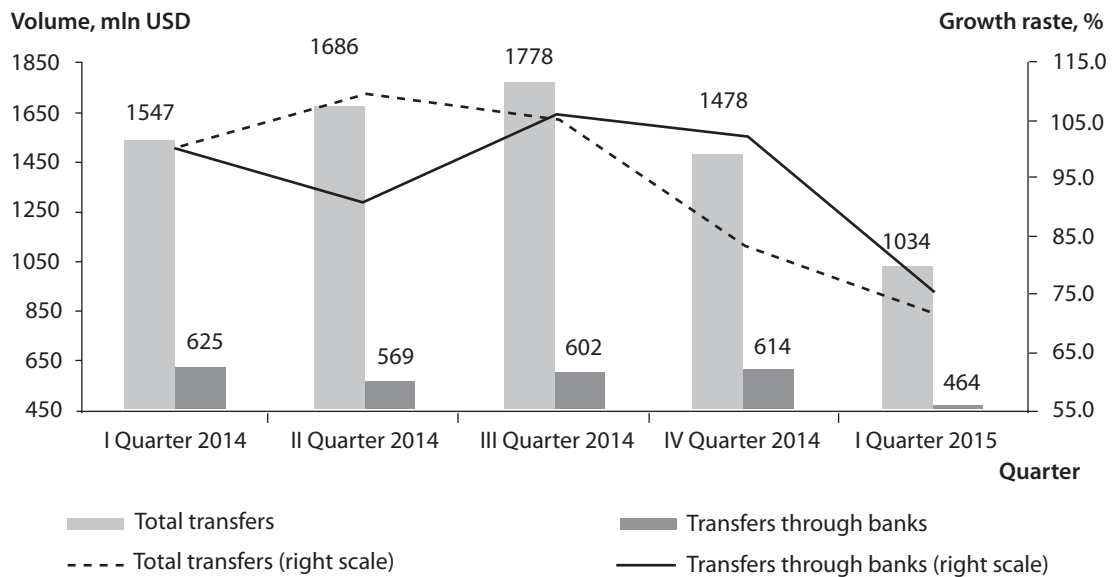


Fig. 4. Volumes of money transfers to Ukraine and their growth rate for 2014–2015 in dynamics

Source: developed on the basis of [4; 5]

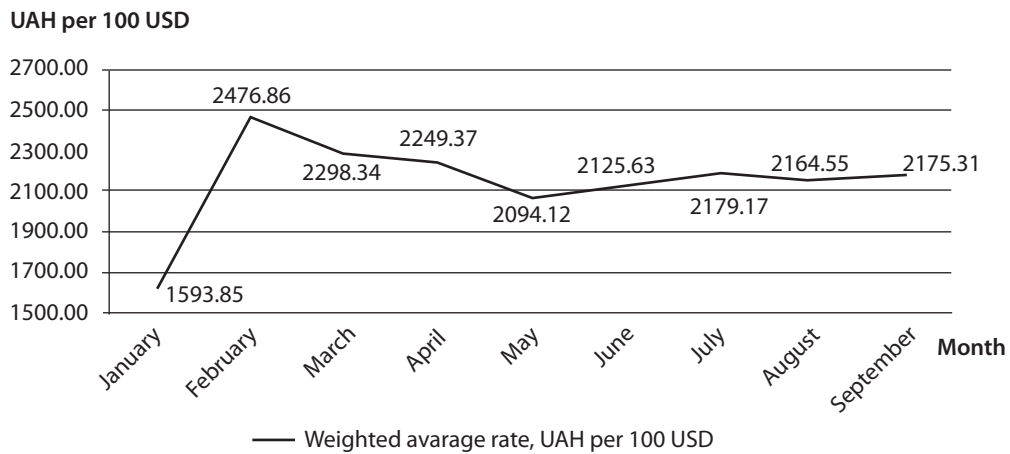


Fig. 5. The dynamics of changes in weighted average rate in the interbank currency market of Ukraine for January–September 2015, UAH per 100 USD

Source: developed on the basis of [4; 5].

position in the ranking of the largest banks in Central and Eastern Europe and the 332nd in the ranking of top 1000 world banks.

The bank has subsidiary banks in Latvia (50.0% ownership interest), Georgia (57.8% ownership interest), Portugal and Italy. Also, offices in Cyprus, China, Kazakhstan, Great Britain, Spain and Germany have been opened. The income of the bank by cord (from offshore companies of Ukrainian clients) has increased from 827 to 1.652 billion USD. The bank's correspondent accounts and overnight placements with other countries banks have declined two times from 12.3 to 9.5 billion UAH [7].

The bank provides a variety of services on international transactions and at the beginning of 2015 the turnover of foreign exchange transactions amounted to 50.7 billion USD. It has rendered services to 2,861 active customers, opened 16,220 foreign currency accounts, carried out 36,910 consultations on foreign economic activity, etc [6, 7].

The bank provides financing of its customers' import transactions using various documentary instruments combining the elements of credit, guarantee and payment services. Services on financing import transactions using credit and guarantee instruments (*Tbl. 1*) bring both direct benefits in the form of a lower cost of financing and a number of additional advantages that may also be important for an enterprise or a company engaged in foreign economic activity.

In the current year 1045 the clients of "PrivatBank" have received 2339 guarantees amounting to 777 million UAH. The changes in major exchange rates used for conversion of sums in foreign currency are presented in *Fig. 6* [7].

The bank's policy on open currency positions corresponds to the Ukrainian legislation, which sets the regulatory limits for these positions, strict monitoring of compliance carried by the NBU on a daily basis. Concentration of the currency risk of the bank at the end of the period and position in the national currency is provided in *Table 2*.

Table 1

The main conditions of the post-import financing of international trade at "PrivatBank"

No.	Term	Descriptin
1	Time period	From a few months to 1 year
2	Maximum amount	100% of the total contract
3	Contract amount	At least 100 000 USD
4	Financing currency	Any freely convertible currency
5	Schedule of repayment	At the end of the period in one payment together with accrued interest
6	Groups of goods to be financed	Any group of products
7	Cost of financing	Determined in each individual case and depends on the current rate of Libor/ Euribor. The proposed by the client cover and the history of cooperation are taken into account

Source: developed on the basis of [6].

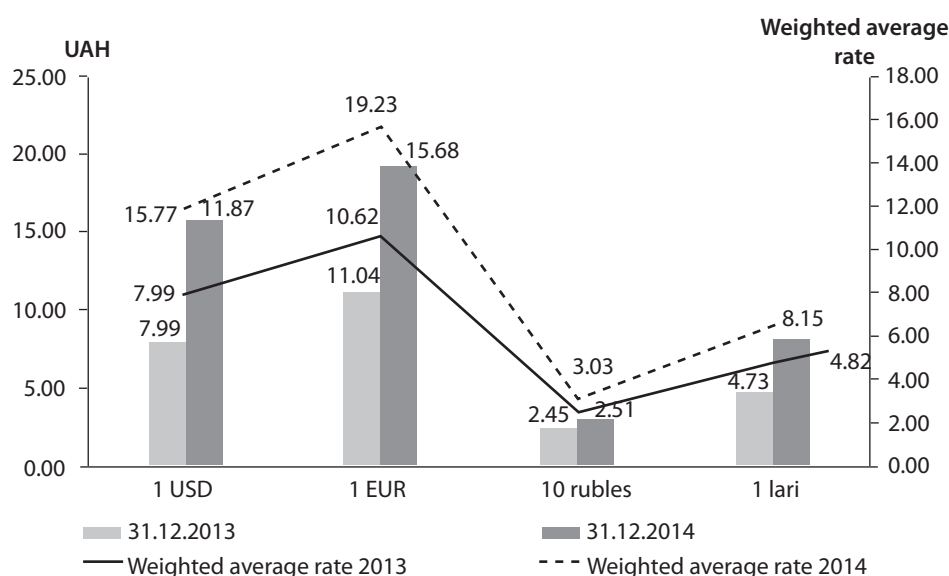


Fig. 6. The main (left scale) and average (right scale) foreign exchange rates for 2013–2014

Source: developed on the basis of [7].

Table 2

Concentration of foreign currency risk at the end of the reporting period and the position, mln UAH

Mln UAH	As on 31 December 2014				As on 31 December 2013			
	Monetary financial assets	Monetary financial liabilities	Swaps, spots and forwards	Net balance and offbalance sheet position	Monetary financial assets	Monetary financial liabilities	Swaps, spots and forwards	Net balance and offbalance sheet position
UAH	131048	97714	(984)	32350	116404	86487	(2342)	27575
USD	78191	79073	(10908)	(11790)	57657	59452	(6901)	(8 696)
EUR	9590	21871	11461	(820)	6489	17029	9613	(927)
Other	3723	2311	450	1862	11603	10171	(412)	1020
Total	222552	200969	19	21602	192153	173139	(42)	18972

Source: developed on the basis of [6; 7].

The level of control over financial risks by the bank is obvious from the changes in the volume of profit, loss, and capital during the reporting period as a result of reasonably possible fluctuations in exchange rates with respect to the functional currency of a certain company used at the end of the period, with all other variables being constant (Tbl. 3) [7].

The risk was calculated only for monetary balances in currencies different from the functional currency of the company. When calculating the sensitivity of the US dollar to fluctuations of the exchange rate, the impact of the fair value of the derivative contract embedded into loans issued to customers was taken into account.

The impact of fluctuations in exchange rates with respect to hryvnia on changes in profit/loss and capital, mln UAH

Indicator	As on 31 December 2014		As on 31 December 2013	
	Impact on profit or loss (before tax)	Impact on equity capital	Impact on profit or loss (before tax)	Impact on equity capital
US Dollar strengthening by 50% (2013: strengthening by 30%)	10 505	10 505	6 505	6 505
US Dollar weakening by 5% (2013: weakening by 5%)	540	540	650	650
Euro strengthening by 50% (2013: strengthening by 30%)	(410)	(410)	(278)	(278)
Euro weakening by 5% (2013: weakening by 5%)	41	41	46	46
Other strengthening by 50% (2013: strengthening by 30%)	93	93	51	51
Other weakening by 5% (2013: weakening by 5%)	(93)	(93)	(51)	(51)

Source: developed on the basis of [7].

In 2014, the bank made a profit of 37 million UAH (in 2013 the figure made up 65 million UAH) through foreign currency transactions in terms of swaps, forwards and spots. This profit was consolidated with other comprehensive income gains in the statement of profit and losses [6; 7].

During the shareholders' meeting in April 2015, the shareholders of the bank decided to increase the share capital by 5,000 million UAH. On February 6, 2015 the National Bank raised the refinancing rate from 14% to 19.5%. On March 4, 2015 the NBU increased the discounted rate from 19.5% to 30%. During the period from January to April 2015 the bank received additional refinancing loans in the amount of 8,480 million from the NBU. In March 2015 the bank signed additional agreements with the National Bank to extend the time limit for repayment of the refinancing loans to October 2015, with the original maturity dates being in February and March 2015. In February and March 2015 one of the bank's shareholders gave his personal guarantee for repayment of the refinancing loans received from the NBU [6; 7].

International investors have approved the bank's proposal on the extension of a syndicated loan agreement, which will enable the bank to spend the raised funds on increasing the regulatory capital and including investments of the bank's shareholders will make up 220 million USD. Besides, the positive results of the negotiations with creditors will give an opportunity to continue redemption of bank Eurobonds in the amount of 200 million USD until 2018. Thus, the bank received support of 10 billion USD from international investors [6].

CONCLUSIONS

The high degree of politicization of the Ukrainian economy has a negative impact on the state of the banking sector. In particular the Ukrainian banking system stability is negatively affected by the devaluation of the national currency; reduced liquidity, the sharp deterioration in the asset quality and the need for the restructuring of debentures of

banks; the decrease of confidence in the banking institutions and the decline in demand for certain bank products, etc. The Ukrainian banking system has practically ceased to perform its function of business crediting and got into a permanent crisis, dragging down the overall economic situation [4]. To stabilize the situation it is necessary:

- ✦ to strengthen the control of the NBU;
- ✦ to introduce a ban on the operations in the currency market, non-deliverable currency for early repayment of foreign currency loans taken by residents from non-residents, as well as a ban on payments in currency;
- ✦ to perform the daily managing of currency positions for each currency separately;
- ✦ to plan the balance of income and expenses received/paid in foreign currency;
- ✦ to form reserves in the currency of the loans granted;
- ✦ to conduct the current measurement and monitoring of compliance with the limits: the total long open foreign currency position (< 1 % of the regulatory capital) / total short open foreign currency position (< 10 % of the regulatory capital) [8].

Under current situation it is essential to pay attention to the incentives regarding national savings and innovative investment. More than 20 years of the active work of "PrivatBank" in the Ukrainian foreign exchange market and the world financial markets as well as its perfect reputation enable the Bank to ensure the most favorable conditions for conducting foreign economic activity. ■

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