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THE MODERN STATE AND PROSPECTS OF STOCK MARKET DEVELOPMENT IN UKRAINE IN THE CONTEXT OF INVESTMENT BANK ACTIVITY

The modern conditions of dynamic financial market development cause the importance of the stable functioning of such its specific element, as a stock market. The Ukrainian stock market is indissolubly connected with international financial markets and it is the most vulnerable segment of the domestic financial system because of its low competitiveness, instability and speculativeness.

Key words: *stock market, investment bank activity, financial system.*

Formulation of the problem. The financial instability is typical for activity of most financial market participants and it strengthens the value of investment bank operations. The indefinite conditions of external and internal environments, in which banks are operated nowadays, and the implementation of modern methods of competitive activity require from them the identical approaches to the organization of investment oriented activity on the stock market.

It means the strategic directions of realization of investment bank activity on the stock market taking into account a resource providing, determination and implementation of activities complex concerning a reduction of financial risks. It becomes more urgent at this time the receiving of science based answer concerning the development of investment oriented bank activity on the stock market in Ukraine.

The extended recreation of wealth is a basis of effective development of the economic system. This recreation provides the capital gain and accordingly the increase of national income. In this context, it is necessary to clarify that the mechanism of realization of the extended recreation of wealth completely depends on efficiency of functioning of the financial system, the basic element of which is a stock market composed of financial market. Only if there is the balanced cooperation of all elements of financial market, particularly of the stock market, it is possible to ensure completely the absorption of resource streams in whole and their transformation to the investment financing tools of real economy. The enough attention to features of functioning and models of the financial system is paid in the studies both of foreign and domestic scientists [1, 2].

Analysis of recent research and publications. Summarizing the research of mentioned authors it is possible to state the separation of such types of financial systems, as a market-

oriented, bank-oriented and mixed one. Their basic features are determinations of professional participants of financial sector, a specialization of financial institutions during the realization of operations, a legislative control of financial intermediary's activity, etc.

Concerning the advantages and disadvantages of the market-oriented and bank-oriented financial systems, it should be noted that the type of models of organization of the financial system substantially influences on the degree of development both of financial market in whole and the stock market in particular. One of basic tool of efficiency providing of this process is an investment activity of main subjects of financial market – the banks, which, in turn, provide the realization of the most volume of financial operations while other intermediaries are mainly specialized on separate types.

The key role of bank establishments in providing of functioning of financial market is caused their historically priority role in mobilization of considerable volumes of resources with a further redistribution in assets; and it is also caused an ability of these establishments to influence on suggestion of money market and an advantage of their activity practically in all domestic financial market segments.

The features of bank activity on the domestic financial market stipulate their priority role in the functional activity of stock market and the corresponding advantage of the bank-oriented model of financial intermediation. Determination of Vasyurenko O. became the most economically reasonable determination of essence of investment bank operations. He marks that the investment operations are active operations from the bank resources investment in various securities with the purpose to get the income from keeping them in the portfolio during a certain term or from the sale of the purchased securities at a higher price [3].

Such determination completely specifies the essence of investment operations in a bank, and thus, also its activity on the stock market. Because it determines the aim of implementation of investment operations and the direct tool of their realization taking into account a resource providing of process. Taking into account all subject directions, such economic interpretation of essence of bank securities operation became a base one for realization of further research. In modern economic literature, a classification of bank securities transactions also is an object of research of many domestic and foreign scientists and economists: from determination of separate types [4, 5, 6] to the effort of their combination and classification [7].

However, it should be noted that the marked approaches of authors concerning the determination of classification signs and multidimensional composition of bank securities operations take rather limited into account the modern tendencies of functioning of stock market in Ukraine. The stock market is classified depending on the stage of securities circulation. There are primary and secondary market in modern economic literature [8].

As a rule, there are placed the first issued securities on the primary market, and there is a capital mobilization. At the same time there are traded the securities on the secondary market, which have been realized on the primary market already. In other words, the secondary market provides a purchase and sale of previously issued securities. Taking into account approaches of modern scientists and organization features of functioning the domestic secondary stock market is divided into an exchange and an over-the-counter securities market.

The over-the-counter securities market is decentralized, in contrast to an exchange market, which at functional descriptions is centralized. The organized exchange market, as a rule, is associated with the concept of stock exchange, and the organized stock market of Ukraine is not an exception. Concerning the over-the-counter securities market it should be noted that the primary placing of securities is realized on this market. Moreover, there is realized the resale of securities of those issuers, securities of which are not listed, i.e. they do not meet the fixed requirements of trade organizer.

The aim of the study. Generalizing the views of domestic authors concerning the separation of basic functions of stock market, it should be generalized the fundamental functions, namely: area regulation of money and credit turnover; providing of capital transformation between branches and national economic sectors; distribution and redistribution

of corporation capital and their activity's control; capital formation and providing of its efficient use and corresponding providing of operative information about individual capital movements. Domestic bank sector is the most active participant of stock market and has a direct influence on quality of realization of basic functions of stock market.

Therefore, banks should be considered not as separated institutes of market economy but as a complex system that in its unity mediates a reproductive process in the economy, determining volumes [15] and directions of investment [9]. Applying to foreign experience of bank activity, it should be noted that implementation of only lending operations by bank gives an opportunity to get a sufficient income, but it does not allow to expect a low risk level, because by lending a bank constantly risks not to get it back. Therefore, foreign banks of developed countries never limit the active operations to lending [10].

The main material of the research. Having the free financial resources, banks must provide not only their keeping, an acquisition of corresponding income but also their diversification and liquidity. That is an acceptable reason for implementation securities transactions taking into account the normative features of the investment-oriented activity. Realizing the securities transactions, a bank stimulates so-called investments process, which is defined as a sequence of stages, actions, and procedures for such activities.

The consideration of role of bank transactions on the stock market and determination of frames, beyond of which they lose the signs of expediency, is possible only on the basis of general theory of microeconomic behavior, i.e. the theory of bank behavior in the market conditions. The clear selection of basic forms of bank investment intermediation from the position of microeconomic analysis gives an opportunity to define the priority of bank sector as a basic subject of stock market, advantage of investment-oriented bank activity from the position of internal market and to define the influence possibilities of bank establishments on investment development in whole.

Thus forming a clear idea about possibility of separation and classification of bank securities transactions. It should be noted that bank cooperation with clients within the microeconomic frames could be realized in four forms, which have a specific motivation of bank behavior. The first form of the investment-oriented activity within which banks act as custodians of client's savings, is the form of cooperation between banks and customers to attract the majority of resources that provide bank securities transactions. The volume maximization of attracted investment resources, which are necessary for satisfaction the demand for them, is a definite reason in this part of investment-oriented bank activity.

The increase of scales of bank activity on the stock market in a long-term plan is impossible without the volumes' increase of accumulated savings. The cooperation form with customers, in which banks act as borrowers or creditors, is connected, first, with direct bank activity on the stock market. The bank reasons in this situation should be considered differentially for cases, when they act as borrowers and creditors. Banks as creditors on the stock market have a purpose to get a direct income due to placing of the accumulated investment resources or, in case of their insufficiency, due to realization of credit money emission.

Banks as borrowers act on the market exceptionally as demand subjects on the sources of investment resources, fixed for placing in securitized investment assets from side of other subjects on the investment market. The development of resource base of investment bank activity and liquidity support are the basic reasons of realization of such operations. In some cases, banks in this form have an object to decrease of risks of own investment activity due to their realization to the third persons. The last two forms are related from the motivation position of their use by banks on the stock market. When cooperating with customers, in ways that involve banks as a commission intermediary or agent, banks aim to stabilize the income level due to their activity. And accordingly to extend a profitable base without assuming the additional risks by general increase of customers number.

Taking into account the specific of cooperation on the axis «Bank -Client» in whole it provides a basis for further expansion of investment activity and strengthening of competitive positions. For substantial implementation of these positions a bank realizes securities

transactions for the purpose of increase of functioning efficiency of the stock market and getting profit, using the whole range of securities represented on the domestic market. The world practice has many types of securities, and with the development of financial markets, there are more varieties of them. In the wake of implementation of information technologies the traditional types are modified, the character of securities transactions is changed.

The stock market is usually considered as a main component of financial market that is, in the widest sense, a place, where there are those, who in the process of economic activity need money for expansion of its activity, and those, who accumulate savings that can be used for investments. The mechanism of market functioning has its own features that are related to the specific structure of traded securities, the business activity of those or other market participants, the general state of the economy, and the model of financial system [11].

According to the Law of Ukraine «On Securities and the Stock Market» the main participants of the domestic stock market are issuers, investors, self-regulatory organizations and professional participants of the stock market. The banking sector by its function-purpose is its direct participant. It should be noted that the professional participants are legal entities, who conduct their professional activity on the stock market under the license issued by the National Commission on Securities and Stock market, and the types of their activity are defined by Laws of Ukraine [12].

Based on Law of Ukraine «On Banks and Banking Activity», the banks, except providing the financial service, have a right to realize the activity concerning the investments by securities transactions realization in accordance with the legislation of Ukraine about securities, investment activity and according to the normative-legal acts of the National bank of Ukraine. It should be noted that domestic banks have a right to realize investments in all forms only according to the written permission of the National bank of Ukraine. Therefore, it should concretize that the activity of domestic banks on the stock market of Ukraine is regulated both from the side of the National Commission on Securities and Stock market in the context of regulating of their activity as issuers, investors and professional participants and from the side of the National bank of Ukraine that specifically identifies a bank sector in the context of other market participants and determines the normative restrictions of its activity on the stock market. Banking area and stock market – are the main subsystems of financial market that have a mutual influential effect on each other that has a subjective and objective character. Banks are subjects that directly influence on the functioning of stock market, and a stock market is a part of field of banking activity. The subjective and objective character of interconnection always stipulates much stronger influence of subject on an object than the influence within their feedback. The interconnection between stock market and banking area is not an exception. Ukraine, as an independent state, exists already twenty-one years. During this period the economy of Ukraine has undergone the serious changes related to the change of patterns of ownership and forming of market relations that also have influenced on an origin and stock market development in Ukraine.

However, in modern conditions the national stock market development is restrained by the row of objective and subjective factors. The main factors are: lagging of existent legislative and regulatory base of stock market functioning from development of real processes; insufficiency of government control of national stock market; mistrust of population and its psychological inexperience to the transactions on the stock market; lack of necessary protection of small investors' interests from the side of State. The banking sector today, accumulating the largest volume of resources for realization of investment activity, is the most important participant of stock market of Ukraine (Fig.1). After reviewing the investment banking activities on the stock market, the author grounded that the bank transactions on the stock market represent a significant place. On the primary stock market the volume of bank transactions is 28,7% of the total volume of transactions of other participants; concerning the secondary stock market the volume of investment operations is 25% in the total structure of the realized exchange contracts. Thus, it is arguable that the banking sector substantially influences on the forming of the main components of investment process on the stock market. This testifies to the substantial bank participation in the process of functioning of domestic stock market and determines them as effective participants in its development. The determination of investment bank activity is

incorporated in both the legislative and regulatory base of investment relations regulation and in the research of many well-known domestic and foreign scientists and economists [13].

USE – Ukrainian Stock Exchange, KISE – Kyiv International Stock Exchange, Innex – Stock Exchange “Innex”, PSE – Pridneprovsk Stock Exchange, UICE - Ukrainian interbank currency exchange, UISE – Ukrainian international stock exchange, EESE – East European stock exchange, PFTS – PFTS Stock Exchange, Perspective – Stock Exchange “Perspective”, UE – Ukrainian Exchange.

However, new organizational and legal relations between subjects of investment activity require the profound substantive ground of essence meaning of investment bank activity within their functioning on the stock market. It should be taken into account the resource providing, distinguishing the realization directions of this activity because the essence of investment activity in its classic meaning mostly summarizes the bank activity in all areas of investment components without distinguishing such branch as a stock market.

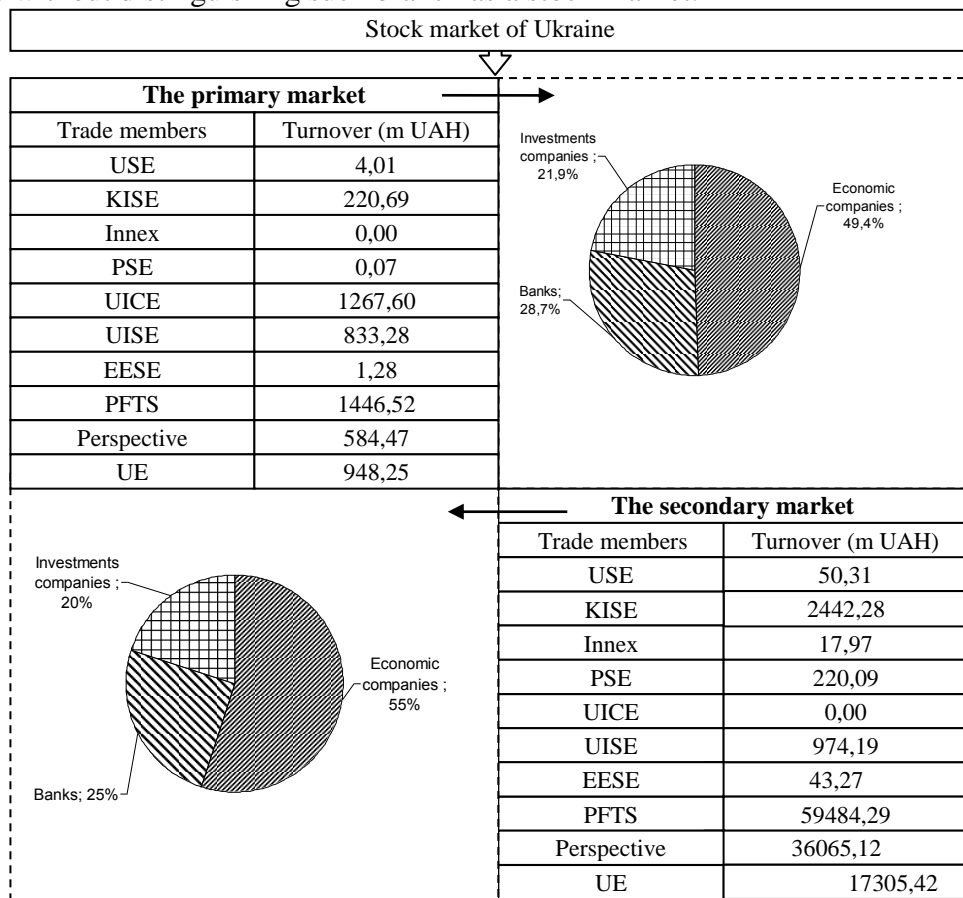


Figure 1. Performance of stock market participants of Ukraine in 2014

*Source: Authors' own development on the basis of resources [14]

The scheme of the forming of investment resources, that it is represented on the Fig. 2, specifies and extends the classification signs of sources of investment bank resources. The participation of banks in the functioning of stock market is the determinative factor of influence on the market investment relations and directly a demand for the main sources of investment resources depends on banking.

In part of their propositions the banks, first of all, determine the final characteristics of the saving part that forms the proposition of investment resources. Secondly, they have a unique influence because of realization of credit emission of money. Thus, the banking influence on forming of propositions on the stock market is substantially more important in comparison with similar influence from the side of other professional stock market participants.

The main reason of it is not an ability of banking area to increase propositions over available resources, but the fact that in this part of proposition the banks determine monopolistic

the all significant characteristics without losing an analogical role in part of proposition that has been remained. The effectively formed resource providing of investment bank activity, i.e. the mobilization of all potential resource sources, gives an opportunity successfully to take into account all components of bank investment process.

In our view, a substantial advantage of the described approach concerning the consideration of the researched concept is both the static description of analysis object that is based on the separation of certain elements (investments, resources, bank resources) and a priority of the separate stages of movements of investment process (activity, investment activity, bank operations) that extends the possibilities to research the bank activity on the stock market. It is researched as an integral process in basis of which is a sequential replacement of different forms of substantial content that, in its turn, determines a necessity to identify the clear guidelines that provide the efficiency of use of this category in the context of bank activity on the stock market.

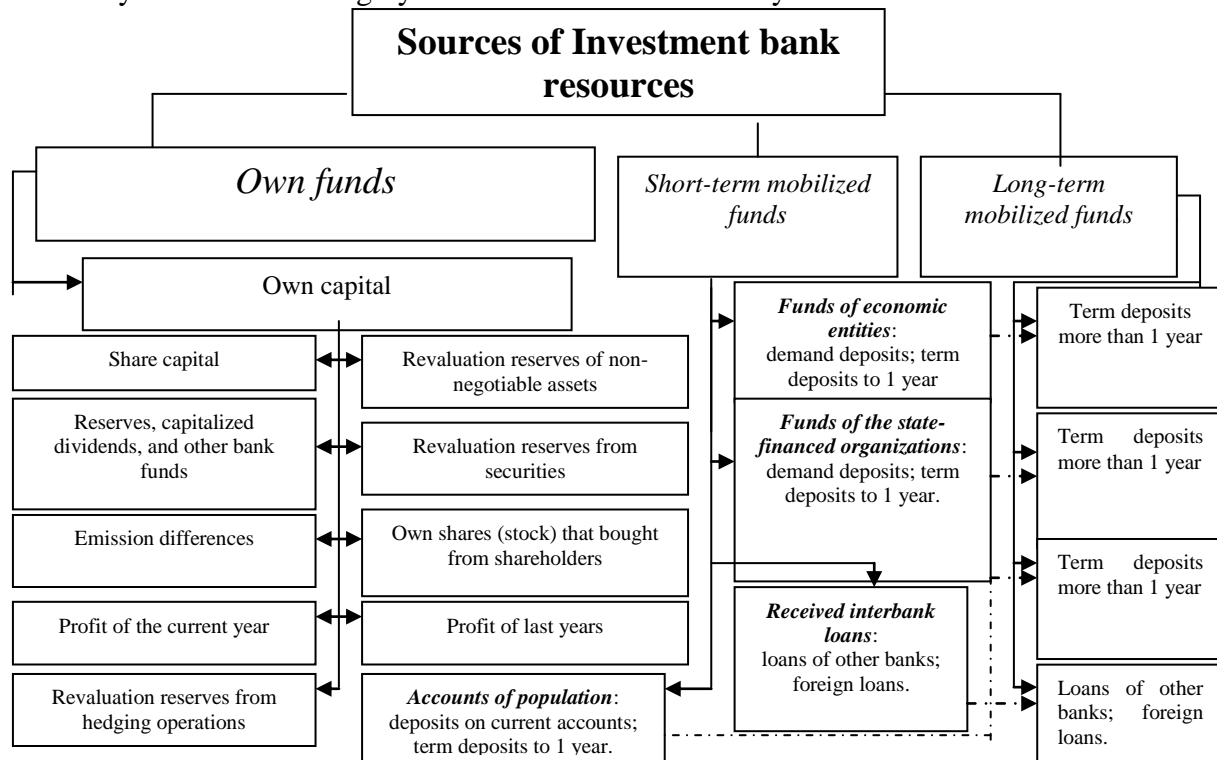


Figure 2. Sources of forming of investment bank resources
*Source: Authors' own development based on resources [3, 5-6, 8-10]

During realization of final and first goal of investment-oriented bank activity, it is created a new interconnection: income – activity. But because a transformation of investment resources is realized when using the main tools of bank activity on the stock market - securities transactions with corresponding consideration of regulatory limitations of the National bank of Ukraine we can note this priority difference. Thus, there is a close interconnection between banking sector, stock market, implementation of securities transactions as priority tools, and investment resources, which are the key element of forming of resource providing of bank activity on the stock market taking into account regulatory limitations.

It causes the profound interconnection of the defined levels and determines that bank participation in functioning of stock market and certain sequence of different types of activity by implementation of securities transactions and by use of investment resources in the terms of restrictions of banking activity implementation. By its component characteristic a bank participation includes recognition of guidelines of bank investment activity. Under this concept, we understand the investment-oriented bank activity on the stock market as a combination of all forms of actions on relations that appear on the stock market due to banking area, regardless of whether they are caused by banking activity on the stock market or by other directions of banking activity.

Conclusions and recommendations for further research. Thus, the research of categorical essence of investment component of modern reproductive process, the analysis of development feature and the main problems of functioning of stock market of Ukraine, is the theoretical base, the essence concretization of which should form a basis for the formation of effective strategy for bank activity management on the stock market that provides an optimal functioning of banking sector with corresponding determination of realization features of securities transactions and their resource providing in the terms of riskiness of the stock market of Ukraine.

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СУЧАСНИЙ СТАН І ПЕРСПЕКТИВИ РОЗВИТКУ РИНКУ АКЦІЙ В УКРАЇНІ В КОНТЕКСТІ ІНВЕСТИЦІЙНОЇ ДІЯЛЬНОСТІ БАНКУ

Анотація. Сучасні умови динамічного розвитку фінансового ринку викликають важливість стабільного функціонування такого специфічного елемента, як фондовий ринок. Український фондовий ринок нерозривно пов'язаний із міжнародними фінансовими ринками і є найбільш вразливим сегментом вітчизняної фінансової системи через його низьку конкурентоспроможність, нестабільність і спекулятивність.

Ключові слова: фондовий ринок, банківська інвестиційна діяльність, фінансова система.

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