“Money assets of internally displaced persons as financial resources of commercial banks”

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MONEY ASSETS OF INTERNALLY DISPLACED PERSONS AS FINANCIAL RESOURCES OF COMMERCIAL BANKS

Abstract

The article highlights the necessity of ensuring the interests of the state, commercial banks and internally displaced persons. The analysis of the scientific literature has shown that there is no the problem of this kind in the European countries. So wide "hybrid warfare" in the world history is being waged on the territory of Ukraine. The world has not encountered similar problems. The extensive research of the scientific literature has shown that Ukrainian scientists attempted to solve the problems of bank management, the market of deposit services, the relations of commercial banks with the National Bank of Ukraine, the management of banking system and risks, etc. The relations of three participants (internally displaced persons, commercial banks and the National Bank of Ukraine) in the deposit market of Ukraine have not been under study yet. This paper explores the ways in which it is possible to combine the interests of the state, internally displaced persons and banks and find new sources of banks' credit resources. The methodological approach taken in this study is a mixed methodology based on dialectical method, formal-and-logical method, logical-and-juridical method and methods of analysis, synthesis, and comparison. The uniqueness of the problem for the economy and social sector of the European countries is determined; the ways of the state support of citizens-investors in their economy and national banks are explored, and some important changes in the Ukrainian legislation are studied.

Keywords commercial bank, internally displaced person, deposit contract, welfare payment, the National Bank of Ukraine

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INTRODUCTION

The banking sphere of Ukraine, corporate ownership and control over it, the activity of any individual commercial bank are experiencing probably the most difficult time for the latest period. On the one hand, they are under the influence of external factors: world economic crisis, in particular, the slowdown in productivity growth in the USA (according to Bloomberg agency with reference to the Department of Commerce, the US GDP increased by 0.8% for the first quarter of 2016, by 1.2% for the second quarter, while the analysts expected the US GDP growth of 2.5%) (Trading Economics, 2016); record recession in the economy of China (in the first quarter of 2016, the economy of China demonstrated the growth of 6.7%, this is the lowest indicator since the financial crisis of 2009; in 2015, the GDP of China was the minimal for the last 25 years and made up 6.9%) (Reuters, 2016); the decline of the GDP of the Russian Federation (according to German Greph, the Head of Sberbank of the Russian Federation, hydrocarbon era has passed and Russia has found itself among the "countries-downshifters") (Sharojan, 2016); according to the state corporation of the Russian Federation "Bank of the Development and Foreign Economic

Affairs" (Vnesheconombank), GDP of the Russian Federation decreased by 1.1% in January–May 2016, and the situation in the economy is much worse than it was expected (Mogilevskaya, 2016). On the other hand, they are under the influence of internal factors – the loss of a significant amount of financial resources due to the reduction of investments at a time of "hybrid warfare", the impoverishment of citizens, the reduction of profits of most companies, bankruptcy and/or suspension of licenses of many Ukrainian banks, and an increased distrust to the Ukrainian banks.

The existing problems in the country gave rise to the emergence of a new social group – the internally displaced people (hereinafter – IDP) from the Crimea and Donbas. In difficult economic and political situation, the state is trying to support them financially. The legislation, the practice of government bodies and financial institutions concerning the support of IDP are implemented with a negative result for the state and the participants of financial markets.

1. LITERATURE REVIEW

A considerable amount of literature was devoted to the activity of commercial banks and their financial resources in the form of deposits of citizens, enterprises, institutions and organizations; the interaction of commercial banks with their direct regulator, the NBU, was under study; special attention was paid to the interaction of the NBU with the supreme executive authority of Ukraine – the Cabinet of Ministers of Ukraine (hereinafter – the CMU). These are the studies by Hubarieva et al. (2017), Zarytska (2009), Zatvarska (2004), Motlhabane (2017), Kovalenko (2010), Plotnikova (2010), Starynskyi (2009), Fostiak (2009), Drebot and Halko (2008), Khabiuk (2008), Sheludko (2002) and others.

Hubarieva et al. (2017) investigate the relations of banks with their clients to determine the priority sources for attracting deposits.

Zarytska determines the nature of the category "banking capital"; she pays special attention to the diversification process of banking capital and reveals the nature of the functioning of banking capital (Zarytska, 2009, pp. 134-136). However, the relations between banks and their depositors were not the subject of this study.

The dissertation of Zatvarska (2004) is the theoretical and practical study of the role of banking system in the period of shaping banking relations. It has determined the main criteria of the stable functioning and sustainable development of the banking system. The integration of the interests of the state, banks and depositors was not researched in the study.

Motlhabane investigates the search incentive points for clients, mainly university students. Credit balances and continued savings need to be incentivized with interest earnings (Motlhabane, 2017).

Kovalenko carried out an investigation of the theoretical and methodological principles of the strategic management of the financial stability of the banking system. The monograph has revealed the main approaches to the financial stability of the banking system (Kovalenko, 2010). The author has not investigated the relations between banks and depositors.

Plotnikova devoted her work to the relations between the NBU and commercial banks (Plotnikova, 2010). The relations between banks and depositors have not been investigated in this work.

Starynskyi has investigated the infringements and their settlement in the banks' activity (Starynskyi, 2009).

Fostiak (2009) and Sheludko (2002) have researched the overcoming of the problems in macroeconomics.

Drebot and Halko investigate the relations of banks with their clients, in particular with their depositors. They suggest the system of integrated service that not only provides the purchase of the deposit product, but also the purchase of other banking and nonbanking products (services) (Drebot & Halko, 2008, pp. 130-131). However, the relations between banks and IDP were not investigated in this paper.

Khabiuk has examined the optimal level of the banking regulatory policy in Ukraine. Having reviewed

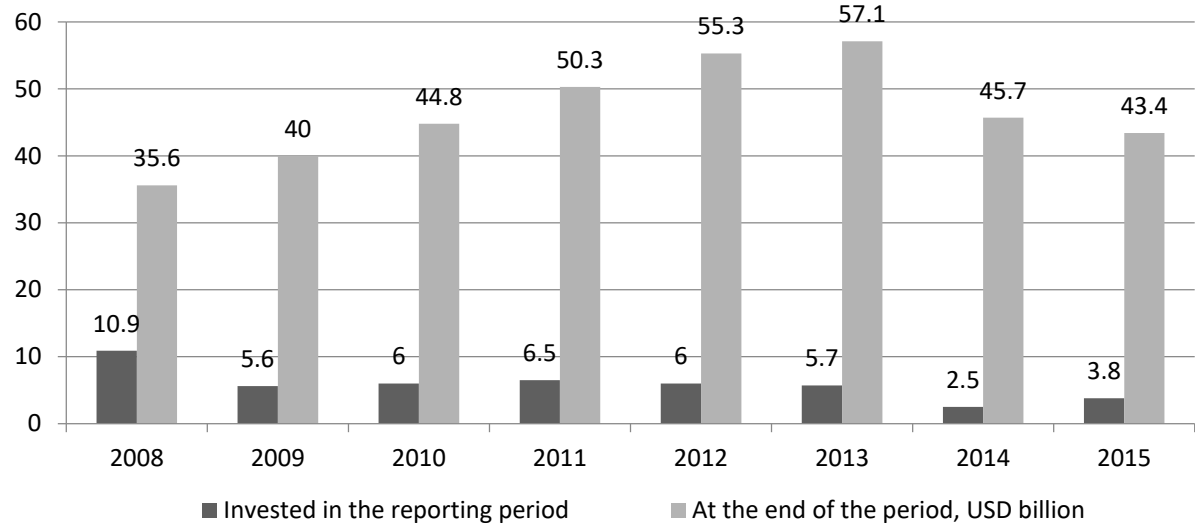

Figure 1. Foreign direct investments, USD billion (Ministry of Economic Development and Trade of Ukraine, 2016)

the theoretical studies of national and foreign scientists, the recommendations of Basel Committee on Banking Supervision, and regulatory framework of Ukrainian bodies of banking supervision, the author has suggested the ways for improvement of the banking regulator y policy in Ukraine (Khabiuk, 2008).

The suggested research problem is unique in the economic science and in the practice of Ukraine and other countries. Its overcoming can become the key to the overcoming of similar problems that can arise in the European and other countries. Deposits of IDP should facilitate the stability of commercial banks and protect their corporate ownership. However, the new ways of money raising, particularly deposits of IDP, require a new research.

The relations between financial markets and institutions, government bodies and IDP have not been investigated in the scientific literature. The integration of their interests requires a special research.

The objective of this study is to identify and suggest the way of how to integrate the interests of the state, IDP and banks.

2. METHODS

A combination of dialectical method, formal-and-logical method, logical-and-juridical method and methods of analysis, synthesis, and comparison was used in this study. By employing these methods, we attempt to determine the uniqueness of the problem for the economy and social sector of Ukraine and European countries; to identify the possibilities of the state to support citizens-investors; to suggest legislative changes. Analogy and the method of comparison were used to help identify how the state and the banks can support citizens-investors.

3. MAIN RESEARCH RESULTS

Figure 1 prepared by the Department of the investment mobilization of the Ministry of Economic Development and Trade of Ukraine, illustrates the dynamics of the direct foreign investments in the Ukrainian economy and their outflow. Sharp deterioration of both indicators in 2014 and 2015 is also shown in Figure 1.

According to the National Bank of Ukraine (hereinafter – the NBU), in January 2016, there were 117 commercial banks in Ukraine, that is 46 banks less than in the previous year (163 banks in January 2015). In April 2016, the number of Ukrainian banks fell to 100 (National bank of Ukraine, 2016). In 2014, 33 banks were under reorganization, were found insolvent, were liquidated or were managed by temporary administration (National Bank of Ukraine, 2017). The present situation in the financial market of Ukraine is the result of an inefficient

Table 1. Key performance indicators of the Ukrainian banks in 2016 (UAH mln) (National Bank of Ukraine, 2016)

No	Indicator	01.02.2016	01.03.2016	01.04.2016	01.05.2016	01.06.2016	01.07.2016
2.1	Funds of economic entities	325,988	336,999	332,961	336,682	338,017	347,898
2.1.1	Including: time deposits of economic entities	97,134	97,261	92,296	97,956	95,629	94,933
2.2	Funds of individuals	392,028	408,347	403,046	395,154	389,937	395,148
2.2.1	Including: time deposits of individuals	292,030	305,031	300,516	290,803	287,070	285,378

risk management, an inadequate use of financial, human and property resources by the financial institutions, in particular, by banks, insurance companies, credit unions, financial and credit organizations and others.

Money resources, the source of which are deposit agreements, are the resources used by the commercial banks in lending, investment and other operations that allow the banks to provide a wide range of high-quality services. According to the NBU, in 2016, the deposits of individuals exceed the deposits of economic entities (Table 1).

However, the rates must be several times higher. The shortage of funds in the commercial banks reduces the possibility of companies to obtain credit resources needed for the development and maintenance of business, the increase of capitalization in Ukraine.

According to various sources as of April 2016, it was registered over a million of IDP in Ukraine. To calculate an exact number is quite difficult as it is changing due to the objective demographic processes. The official data of the Ukrainian State Service on Emergencies indicates that as of April 19, 2016, it was registered 1,320,501 IDP in Ukraine (Ministry of Internal Affairs of Ukraine, 2017). The majority of them are the owners of corporate property, private property, and money resources.

Their material security is a challenge for the weak economy of the state. The majority of them are young people who have education and professional skills that were not in demand on the temporarily occupied territories. It can be considered that the influx of young professionals and their children is favorable for the state (the number of children as of April 19, 2016 is 169,976); it will help to overcome demographic problems in Ukraine. The support of pensioners and disabled (it was officially registered 500,078 people among IDP (Ministry of Internal Affairs of Ukraine, 2017)) is the test for the compliance with the European social and humanistic standards.

To support IDP the CMU adopted Resolution No 505 of October 1, 2014 "On providing monthly categorical grant to internally displaced people to cover living expenses, including housing and utilities" (Supreme Council of Ukraine, 2014). Pursuant to this Resolution, an appropriate procedure of providing monthly categorical grant to IDP was approved. According to paragraph 3 of this procedure, the allowance for IDP is paid at a rate of UAH 442 per one employable person, UAH 884 per one incapacitated person (pensioner, child), minimum living cost for disabled; the total amount of allowance per family cannot exceed UAH 2,400 (Supreme Council of Ukraine, 2014). As a result, the amount of expenditure from the reserve fund of the state budget is significant. We will know in a few years whether the state GDP growth can improve the situation. IDP can support the economy of the state. However, it is necessary to change the legislation or the practice of its application.

According to Clause 6 of the procedure, IDP cannot receive monthly categorical grant if any of the family members has deposit banking account 25 times as much as the minimum subsistence income of employable person (Cabinet of Ministers of Ukraine, 2014). According to Article 7 of the Law of Ukraine "On the State Budget of Ukraine for 2017", the minimum subsistence income of employa-

ble person was UAH 1,684 in May 2016, and UAH 1,762 in December 2017 (The Law of Ukraine "On the National budget of Ukraine for 2017", 2016). Therefore, in December 2017, the maximum sum on a deposit account of one IDP should not have exceeded UAH 44,050 (just over 1,300 euro).

Thus, people who managed to sell their property on the temporarily occupied territories cannot open a deposit account in Ukrainian banks because they will lose the right to receive monthly categorical grant, and commercial banks will lose the opportunity to raise money.

The principles of "egalitarianism" are being applied towards IDP. Similar situation on the Ukrainian lands was in the early 1930s at the time of the forced collectivization of the peasantry. Farmers won if they had chosen consumption but not accumulation and development. Today, the state is stimulating consumption of IDP and this situation is destructive. The IDP with substantial monetary funds can pay their money into bank accounts and cover state's losses at the rate of UAH 442 per one employable person, UAH 884 per one incapacitated person or UAH 2,400 per family. However, this situation is possible under the condition of stable functioning of the state banking system. Taking into account the problems in the banking sector of Ukraine, people prefer to keep spare money at home (as a rule, in foreign currency). In this case, IDP will continue to get monthly categorical grants and keep their spare money at home. Although there is a risk of its loss because of violent or other illegal actions of third persons (robbery, plunder, theft, fraud, extortion and others).

Restriction on the use of spare money of Ukrainian citizens is the mistake of the state regarding commercial banks. Under the conditions of the financial resources deficit, Ukrainian banks actively carry out transactions with small sums of money. You can pay the cost of provided services, transfer small sums of money to another account in any branch of commercial bank. When exercising risk management and control over the activity of commercial banks, the National Bank of Ukraine remains surprisingly passive concerning the issue under study. The NBU can initiate the revocation of Clause 6 of the procedure concerning the refusal to provide monthly categorical grant if any of the family members has deposit banking account ten times as much as the minimum subsistence income of employable person. According to Article 51 of the Law of Ukraine "On the National Bank of Ukraine", the NBU has the right to present proposals concerning the legislative regulation of issues to the President. According to Article 52 of this law, the NBU has the right to present proposals to the Cabinet of Ministers of Ukraine (The Law of Ukraine "On the National bank of Ukraine", 1999). According to Article 93 of the Constitution of Ukraine, the President and/or the Cabinet of Ministers of Ukraine have the right of legislative initiative in Verkhovna Rada of Ukraine (Constitution of Ukraine, 1996). The specialists from the NBU should develop a new law. According to this law, the NBU should be the central body of the state power in the financial sector of Ukraine, the body that exercises management and control over the financial markets and institutions in Ukraine. The acts of the NBU should have priority over the acts of executive power or local self-government in the financial and banking sector of Ukraine.

This law should include the norms that provide some benefits to citizens of Ukraine, foreigners, stateless people, business entities and their associations if they pay money into deposit or current accounts of Ukrainian commercial banks under the condition that this money comes from abroad and/or from the zone that is not temporarily controlled by Ukraine.

The examples of granting residence permit to foreigners who invest in real property can be: Spain – the amount of investment is € 500, 000, Andorra – the amount of investment is € 400,000, Bulgaria – the amount of investment is € 300,000, Latvia – the amount of investment is € 143,000 in Riga and € 71,500 in other Latvian municipalities. In Latvia, a five-year residence permit can be obtained after opening a deposit account in the Latvian bank for € 286,000 (Mertsalova, 2013). Having made investment in corporations registered on the territory of European and American countries, a foreigner can receive more benefits.

The position of Ukraine with respect to IDP and domestic commercial banks is unclear. Citizens of Ukraine from the zone of the antiterrorist operation or from the Autonomous Republic of Crimea lose their right to get state assistance in case if they invest in real property or banking system of Ukraine.

CONCLUSION AND PERSPECTIVES FOR THE RESEARCH

For the first time after World War II the European country has faced so large-scale problem of IDP. This country is Ukraine. Ukrainian commercial banks have been experiencing the biggest financial problem for 25 years of independence. The European countries are not immune to the problems of internal and external migrants. European banks are also experiencing economic crises. How to support commercial banks and internal or external migrants is the key issue for any European country. Some important themes emerge from the studies discussed so far: the possibility to support investors into the state economy; money resources of IDP is an additional opportunity for commercial banks to raise money. These resources will facilitate the level of corporate ownership of Ukrainian commercial banks and will make their bankruptcy impossible.

The Cabinet of Ministers of Ukraine should exclude the words "if any of the family members has deposit banking account ten times as much as minimum subsistence income of employable person" from Clause 6 of the Procedure on providing monthly categorical grant to internally displaced people. The acts of the executive power or local self-government in the financial and banking sector should comply with the acts of the NBU. The development and proposal of additions to Article 100 of the Constitution of Ukraine regarding the competence of the NBU requires complex research in the economic and legal sectors. Future studies on the current subject are, therefore, recommended.

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