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UKRAINIAN BANKING SYSTEM VULNERABILITIES

Ukrainian banking system had suffered from the recent financial crises and even though it had seen some forms of success, there are still pressing issues such as the devaluing of the national currency and diminishing capital entering the country.

One of the major issues the country is facing is the repayments of the due debts that are estimated to total over 60 billion dollars solely for the next year. If the currency devalues too much Ukraine would have to resort to accepting a loan from the IMF.

The positive moment is that the country's amount of foreign currency debt has gone down. Nevertheless, the loans are still subject to fluctuations of hryvnia —vulnerabilities are still present. If hryvnia becomes weaker the currency cost of maintaining or servicing foreign currency would rise. That could increase loan default rates.

There has been five-fold increase in non-performing loans. Experts say it could even be as much as ten-fold. Ukraine's external imbalances are becoming increasingly unsustainable. Reserves could fall to $11-$12 billion by the end of 2014.The reserve depletion shows Ukraine is «increasingly running out of ammunition to maintain even a sub-optimal status quo[1]», as it said in a recent IMF note.

The International Monetary Fund offered the minimum which is to be the same as three month of imports. It is the level of the current foreign currency reserves. The government will be supposed to payback around $5 billion of external debt over the next year. It is near 2,8 percent of GDP.

Negotiations with IMF have not been advancing. The last $15 billion loan program did not succeed because Ukraine would not increase heating and gas prices.

Ukrainian Prime Minister Mykola Azarov indicated that Ukraine cannot increase its gas rates [2]. Once the government reforms its agenda — what the IMF is requiring — it can then be eligible to secure a new IMF program.

Global borrowing is too expensive, namely because the yield on Ukrainian ten-year Eurobonds has recently risen to about four percent. Nowadays, the International Monetary Fund plans to review the country's finances. The representatives from the IMF mission will spend twelve days checking central bank and senior government officials. The mission has the aim to discuss the macroeconomic situation and review future development plans.

Ukraine has to get rid of debts by the end of 2014. Remembering that it is in the budget deficit conditions, finance crisis is still «on the radar». Currency devaluations heading for a 10 percent fall versus the US dollar by the end of 2014 [3].

The official statistic by the State Service asserts that Ukraine's GDP declined by 1.1 percent and 1.3 percent in the first and second quarters of this year. A bountiful agricultural harvest and a low statistical base caused an increase in the real GDP growth during the second half of the year. However, due to the decrease of the first half of the year, in 2013 the rate is approximately zero percent. Ukraine's state statistics committee will report third-quarter GDP on the 31st of October.

On the 20th of September 2013 Moody's Investors Service has downgraded Ukraine's government bond rating to Caa1 from B3 and placed the rating on review for downgrade. It went down seven steps into junk status: citing souring relations with Russia, which accounts for a quarter of Ukraine's exports. Ukraine, a country of 46 million people, now joins the Triple-C club alongside Cuba, Ecuador, Egypt and Pakistan. Five days later, Moody's downgraded the ratings of 11 Ukrainian banks.

The results of the rating agencies inspection indicated that bad debt in Ukrainian banks will probably reach 35 percent of the overall loan amount at the end of 2013, putting downward the pressure on the overall loan capital adequacy ratio of the banking system.

The relationships with Russia might also have a negative effect on three major economic realities as capitalization, asset quality and liquidity of Ukrainian banks.

Provided the banking system does not collapse, there will unlikely be an increase in credit growth higher than its present levels. Ukraine's economy is still risky.

There are a lot of different elements to the economic problem and each of them needs a special sort of solution. Thus, there are a major ways that could encompass most problems.

Concerning the EU, the experience shows that a country itself is powerless to enact such radical reforms without external stimulus. At the same time, convergence with Customs Union would not be effective: member countries are suffering from the same economic problems as the Ukraine — a slowdown as a result of lower commodity prices and the institutional inability to enter the new growth model. Interest rates on foreign currency loans in the external debt market will be so high that the debt burden will continue to grow rapidly, with which Ukraine will not be able to deal on its own. The IMF program will help to avoid the currency and debt crisis giving investors a signal that Ukraine is able to take steps that will help to narrow the budget deficit and the balance of trade and to establish macroeconomic stability in the country. And in the more medium-term, cooperation with the EU in the framework of the Association Agreement will help to diversify the economy and boost the growth in non-oil sectors of the economy. Ukraine needs both short and long-term solutions to the problems.

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