

## **CURRENT STAGE AND STOCK MARKET DEVELOPMENT TENDENCIES IN UKRAINE**

*The article is devoted to the analysis of the main indicators characterizing the level of development of the stock market with the purpose of defining their influence upon a securities market behavior as a separate fraction of the capital market.*

*Keywords: capital market, securities market, stock market, volumes of the securities issue, structure of securities issue volume, volumes of securities dealings, scheme of the volume of securities dealings.*

**Raising of the problem.** *The major stage of a country's economy reforming is creating the effective capital market. Thus, any grand-scale converting in the economic sphere remains uncompleted, if there isn't created any competitive financial sector and capital market, that will be able to mobilize, to redistribute and give the necessary investment resources to the reformed economy. Exactly the stock market development as an element of the capital market and inalienable segment of national economy market acquires the significant importance in the conditions of globalization [5, p. 178].*

**Analysis of the latest researches and publications.** *Both home and western academic economists tend an issue of the stock market forming and development. Among them are V. Basylevych, M. Burmaka, Z. Varnaliy, O. Vasylyk, V. Kolesnyk, V. Korneyev, Y. Lysenkov, O. Mozgoviy, V. Oskolskiy, V. Savchenko, M. Sambirskiy, J. Dolan, K. Forbs and others.*

**The before unsolved part of the general issue.** *However, in the conditions of globalization of the financial systems and transparency of domestic securities market the new possibilities and threats occur for the stock market development as a sector of capital market that needs new studies of the factors impacting upon the specific economy segments.*

**Target setting (aim of the article).** *To analyze the stage and progress trends of the stock market in reliance on the key figures, to define urgent problems, their influence on the capital market development and to offer drifts for improvement of the situation on the Ukrainian fund market.*

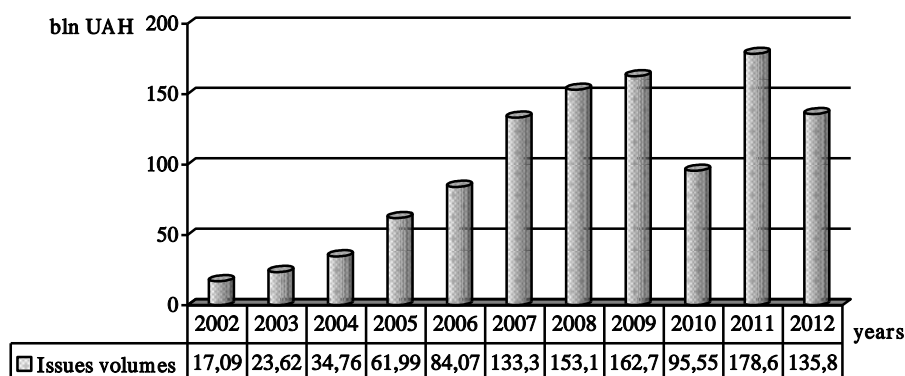
**Presentation of basic statements.** *The market of equities of Ukraine comes forward as one of the major constituents of the Ukrainian economy, which is not only the capital market index but also the index of all the financial system of the country. The current stock market stage and its structure appeared as a result of economic system's transformations that took place in Ukraine under the influence of internal factors of the country's development, as well as external, i.e. crisis on the global financial markets in recent years [5, p. 178].*

*The key figures that characterize the level of the stock market development are the volume of securities issues, the volume of trading on the securities market, the variety of structure of fund instruments.*

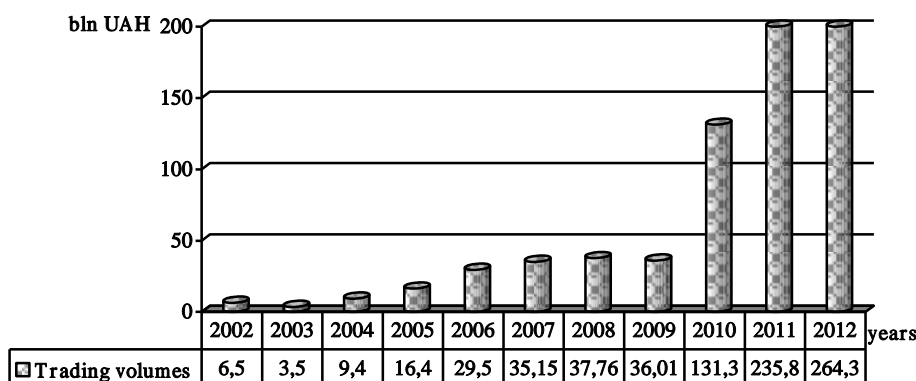
*During January-April, 2013 the general volume of securities issue registered by the National Securities and Stock Market Committee (NSSMC) was 39,96 milliard UAH (there from: equities are 17,34 milliard UAH; bonds of enterprises are 11,30 milliard UAH; investment certificates of asset management companies (AMC) by mutual investment funds (MIF) are 10,43 milliard UAH; equity corporative common trust funds - 0,89 milliard UAH) and the general volume of the executed securities exchange-traded contracts is 118,92 milliard UAH (therefrom: equities are 7,25 milliard UAH; bonds of enterprises are 14,35*

million UAH; government bonds of Ukraine are 87,70 million UAH; local loan bonds are 0,53 million UAH; investment certificates are 1,76 million UAH; derivative securities are 7,33 million UAH) [8].

Dynamics of the volume of securities issue (Picture 1) and the volume of trading on the securities market (Picture 2) during 2002-2012 is progressive on the whole, without regard to some contrary changes.



Picture 1. The volume of securities issue in Ukraine in 2002-2012 [8; 9, p.144]



Picture 2. The volume of trading on the securities market in Ukraine in 2002-2012 [8]

As it is evident from Picture 1, during 2002-2009 there is an activity on the stock market, although beginning from the year 2008 the country's macroeconomic processes began to be marked by strengthening of spottiness, the reason of which became a world economic crisis. Besides, it is necessary to mention that the year 2011 is marked by the utmost volume of securities issues compared to other years of the investigated period. But regardless to a rapid growth in the year 2011 that was 187% in comparing with the previous year 2010, a downturn on 24% took place already in 2012. Such discrepancy of the organized equities market with the processes of the real economy is the evidence of the fact that there is a tenuous relationship in Ukraine or even it is absent at all between the basic indicators of the organized

market and macroeconomic indexes including investments in the fixed assets. Nowadays most domestic enterprises use internal sources for forming financial capital, in particular, net income and amortization deductions. The market of equities has no opportunities to satisfy demands in a financial capital against substantially expensive credit market for most commodity producers [9, p. 143].

As regards the trade volume dynamics of the executed securities exchange-traded contracts it rather reflects correlation between the stock market and macroeconomic processes in the country. Being an example is the response of the stock market to a world financial crisis 2008-2009, namely recession of trade securities volume by 5% in 2009 compared with the previous year. However, it is worth noting that during 2010-2012 the volume of securities exchange-traded contracts grew annually what was accounted for the increase of demand on securities of both native and foreign investors, and also by the increase of security prices of issuers.

As of today the capital market in Ukraine does not offer a wide range of capital issues. (Table 1, Table 2).

Table 1

**Securities issue structure in Ukraine during 2002-2012 [8]**

Type of securities	Quantity of different securities for years, bln UAH										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Equities	12,790	18,021	28,330	24,815	43,540	50,014	46,159	101,060	40,590	57,790	46,880
Bonds of enterprises	4,276	4,242	4,102	12,751	22,076	44,496	31,355	10,104	0,000	35,700	48,730
Local loans	0,000	0,150	0,069	0,347	0,084	0,159	0,965	0,374	9,490	0,580	6,090
Mortgage securities	0,000	0,000	0,000	0,000	0,000	0,053	0,276	0,000	0,000	0,000	0,000
Investment certificates of asset management companies (AMC) (MIF)	0,021	0,965	2,016	23,054	16,604	31,139	65,389	47,216	36,600	75,750	19,960
Subunit certificates of Corporative common trust funds (CCTF)	0,000	0,143	0,139	0,837	1,530	5,479	8,895	3,905	8,870	8,770	14,080
Options	0,003	0,099	0,104	0,161	0,017	0,027	0,0003	0,008	0,003	0,003	0,007
Certificates of Real estate activities funds (REAF)	0,000	0,000	0,000	0,025	0,219	1,933	0,061	0,033	0,000	0,000	0,000
<b>Total:</b>	<b>17,09</b>	<b>23,62</b>	<b>34,76</b>	<b>61,99</b>	<b>84,07</b>	<b>133,30</b>	<b>153,10</b>	<b>162,70</b>	<b>95,55</b>	<b>178,60</b>	<b>135,80</b>

As it is evident from Table 1 the securities produced in Ukraine are the following: equities, bonds of enterprises and local loans, options, investment certificates of asset management companies (AMC) by mutual investment funds (MIF), subunit certificates of corporative common trust funds (CCTF), mortgage securities. Thus, during the investigated period shares and bonds of enterprises prevailed and to the lesser extent were options, not taking into account those securities that were not issued. But in some periods (2008 and 2011) it accounted for investment certificates of (AMC CIF) and (MIF).

Before 2009 the volume of securities issues mainly had a positive trend and in 2009 it reached a maximum, as at the time the money growth rate compared to 2002 was 790%. But in the following years an irrational tendency of volume of securities issues is observed: it grows one day or tends downward another day. For example, in 2012 the volume of securities issues reduced to 19% in comparing to the previous year 2011.

The reduction of volumes of securities issues as one of the means of attracting additional investment resources can be explained by the following reasons: general unfavorable investment climate in the state that predetermines high risk of this type of securities; disinclination of new owners of privatized enterprises to use exactly this financial instrument

because of the fear to lose control of an enterprise; crisis on world financial markets, that caused recession in demand for native paper securities with high risks [5, p. 180].

In respect to the volume of bonds issues of enterprises in Ukraine from 2002 to 2007 there was a bubble on the market of corporate bonds, which main development feature was that mainly the concentrated group of banks formed suggestion and demand on it [9, p. 145]. Then it is possible to mark two waves: from 2008 to 2010 recession wave and from 2011 to 2012 growing wave. Thus, the "lion share" of corporate bonds in 2012 was 35,9% and was the maximum from all the types of securities in that year. It is also necessary to mention, that during the second wave exactly the large enterprises and powerful commercial banks formed the demand and corporate bonds offers.

The positive dynamics of the volumes of corporate bonds emission can be explained by the following reasons: the reduction of probability of issuers' technical defaults; high liquidity of commercial banks; revival of activity of leasing, factoring and other financial institutions; need for the long-term financing of enterprises [1].

First of all a tendency to the increase of securities issues volumes of unit investment trusts (UIT) is related to amount growth of these (UITs). Thus, in 2008 - 381 investment trusts were registered in the Unified State Register of unit investment trusts (UIT) and in 2011 - 196 investment funds were registered that has significance during the years 2009-2012 [8].

In return, during the researched period the new types of securities began to appear, namely: ordinary mortgage bonds that were entered to the market in 2007 and lasted till 2008, and also certificates, real estate activities funds (REAF), the first emission of which was in 2005 and is discernible up to 2009.

Table 2

**Trading volumes structure of securities issue in Ukraine during 2002-2012 [8]**

Type of securities	Quantity of different securities for years, bln UAH										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Equities	0,929	0,835	1,844	4,469	7,059	13,614	11,819	13,540	52,710	79,430	23,440
Bonds of enterprises	0,787	2,024	4,342	6,534	12,316	17,361	16,611	7,070	6,710	21,530	26,360
Local loans	0,000	0,013	0,887	0,667	1,003	0,794	0,457	0,030	0,140	0,460	6,390
State saving loans	4,713	0,516	0,652	3,872	8,646	2,773	8,549	7,880	60,860	99,130	179,13
Investment certificates	0,000	0,0001	0,027	0,174	0,339	0,428	0,204	7,140	7,140	11,400	3,990
Derivatives	0,065	0,112	1,624	0,684	0,089	0,053	0,120	0,050	3,730	23,890	24,950
Mortgage securities	0,000	0,000	0,000	0,000	0,000	0,127	0,000	0,000	0,000	0,000	0,000
Other types of securities	0,007	0,000	0,000	0,000	0,047	0,000	0,000	0,300	0,000	0,000	0,000
<b>Total:</b>	<b>6,50</b>	<b>3,50</b>	<b>9,40</b>	<b>16,40</b>	<b>29,50</b>	<b>35,15</b>	<b>37,76</b>	<b>36,01</b>	<b>131,30</b>	<b>235,84</b>	<b>264,30</b>

As it is evident from Table 2, securities, the exchange contracts hereof grow on the stock market of Ukraine are the following: equities, bonds of enterprises and local loans, state saving loans, options or derivatives, investment certificates, mortgage securities.

In regards to determining the maximum and the minimum ratio from the whole volume of trading securities, it is not the easy task, as the structure varied annually. But as the main trend we can name the tendency to the increase of loan securities dealings. To our opinion, such transaction status means the speculators' fear to lose their own store of money due to instability and underdevelopment of capital market in Ukraine, and also it testifies to the mistrust of the market players to the issuers of securities.

During the researched period the maximum ratio in 2002, 2010-2012 was accrued to state loans, in 2003-2008 to the bond of enterprises and in 2009 to shares. In different years derivatives (2006-2008), investment securities (2003-2005, 2012), bonds of local loans (2009-

2011) and other types of securities (2002) were in the least demand, not taking into account those securities which emission was ceased.

Tendencies of the use of such types of securities, however mortgage securities and other types of securities (in particular, bills of exchange) practically are not visible, their trade is of situational and non-regular nature.

Thus, although in the recent years there was a tendency to diversification on the market in temporarily surplus funds allocation and complication of structure of securities market, that gave an opportunity to competitive home capital market creation [5, p. 181]. But such instruments as shares, corporate bonds, investment securities are the major source of fundraising come forward on the securities market.

At the same time, the securities offer in Ukraine can not satisfy only potential demand of international portfolio investors, but it is even insufficient for providing of increasing demand of home investors whose assets by world standards are miserable [9, p. 143].

The analysis conducted on the whole showed that equity securities' ratio prevailed on the fund market – in relation of securities issue and promissory securities – in relation of securities trading on the stock exchange.

Starting from creation of securities market in Ukraine there is the topical issue of its effective functioning. Nowadays the stock market does not fulfill its main function, that is attraction of investments and redistribution of capital. Besides, a number of problems needs solution, as follows:

1) competitive imperfection of the stock market. This problem emerges from that a public policy in relation to taxation on the stock market is not favorable enough. The information about the securities market is not always publicized, state securities are still prevailing on the stock market, that disrupts new enterprises' securities issue;

2) problem of tax stimulation of the stock market development, that needs abatement of tax assessment of enterprises and value-added tax of noncommercial organizations of the stock market; abolishment of fees for registration of information about the new securities issues. It is also efficient to refuse the taxation for exchange difference, that occurs under capital expenditure conversion into national currency on the stock market;

3) problem of corporate management of the market, that consists in the imperfect system of disclosure of information about the cost of securities and objects of investing through the instruments of the stock market;

4) insignificant development of infrastructure of the stock market, that needs organization of information exchange between the well-arranged markets as there is no as such one. Also there is a necessity of introduction of electronic document flow at a execution of an agreement with securities, acceptance of common standards and certification of the systems of electronic digital signature and data encryption standard [7];

5) problem of the corporate management system on the stock market that consists in violation of rights for investors, inadequacy of regulatory structure, that regulates activity of financial institutes, that carry out a regulator function on the stock market, low level of qualification of personnel of present financial institutions, who are professional participants of the stock market;

6) problem of debt obligations market, local loans, shares development and derivatives. Limitation of market of debt obligations is the result of absence of the integrated strategy of managing a national debt, that is to a greater extent concentrated on a short-term cost, and the debt obligations market development, that is characterized by the fact that emission of debt obligations on the primary security market is unanticipated enough, and it is illiquid on the

repurchase market. As of today all the agreement executions with securities are implemented on the repurchase market. The development of the municipal securities market is braked on account of a financial sustainability limit of local government bodies as well as of structures weak-point of the market-based incentives, the reason of which are favorable terms in estimation of capital level by the banks in crediting local government bodies, insufficient transparency of market, caused by defects in specifications in relation to common size statement and financial audit and others. The development of securities market is braked on account of the insignificant floating securities volume, weak-points in the system of corporate management, as well as imperfection of currency law [6]. In return, insufficient development of underlying instruments markets and imperfect legislative regulation in this sphere stipulated the actual derivatives market absence [4];

- 7) imperfection of the normatively-legal supporting of the stock market activity;
- 8) low level of capitalization of the stock market [10];
- 9) obstacles in organization and realization of the primary public placment of financial instruments on the Ukrainian stock market, that considerably cuts down opportunities to attract the investors to the objects of investing [4].

For further effective Ukrainian stock market development the following extra steps should be taken:

- 1) to improve the regulatory environment;
- 2) to promote the state's role on the stock market. One of the basic elements of government control of securities market is the monitoring the issuers activities, monitoring securities traders, stock exchange and self-regulated organizations focused on the exposure and before-the-fact prevention of law violations on the securities market;
- 3) to create favorable terms for exercise the investors' preemptive right of purchase in respect of the shares on international stock markets;
- 4) to address matters related to strengthening of the system of government control and supervision;
- 5) to guarantee the protection of rights for investors and consumers of financial services, using information disclosure by the participants of financial market on the basis of the generally accepted principles, international accounting and audit standards, prevention of irregularities on the part of financial mediators and professional market parties;
- 6) to stimulate development of investment funds and non-governmental pension funds (NPF) by means of legislative revision, that controls the above-mentioned entities' activity, reforming, necessary for the improvement of the market infrastructure, development of regulatory environment for monitoring the corporate management in UIT and NPF [2, p. 49-50];
- 7) to support centralization of securities trading entirely in institutionalized exchange and non-exchange markets;
- 8) to improve the system of the specialized organizations of infrastructure of the stock market, in particular national depository, security holders and clearing agencies;
- 9) to create favorable terms for stock trading of foreign issuers in the territory of Ukraine and securities of residents living beyond this country;
- 10) to improve the mechanism of attracting entities' spare capital through the system of internal local loans;
- 11) to increase market capitalization, liquidity and transparency by means of: to extend the securities offer with a high investment rating, improvement of informative transparency of

the stock market, advancing of principles of the stock market functioning and implementation of new types of fund instruments, assistance in development of powerful institutional investors;

12) to carry out tax and currency stimulation of the stock market by means of improvement and optimization of the security dealings and exchange control regimes, forming of favorable tax regime for the market participants [4].

**Conclusions and prospects of further studies.** The analysis of the basic indexes that determine the stock market condition showed that the modern securities market of Ukraine was specified by the extraordinarily high degree of fragmentation, liquidity constraints and variety of types of securities. It is a basic obstacle for the future stock market and capital market development on the whole.

However notwithstanding all the weak-points, the securities market has potential possibilities for further development, and especially it concerns the government securities market. Thus, the next stage can be studies of prospects of the government securities market development in Ukraine taking into account international practice.

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