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Analysis of Main Instruments of Crisis Regulation of Banking Activity During the Global Financial Crisis of 2008-2009

Afanasyeva, Olga

Ukrainian Academy of Banking of the National Bank of Ukraine

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Postal Address:

Postal Box 36
Sumy 40014
Ukraine

Tel: +380-542-611025
Fax: +380-542-611025
e-mail: alex_kostyuk@mail.ru
alex_kostyuk@virtusinterpress.org
www.virtusinterpress.org

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Тел.: 38-542-611025
Факс: 38-542-611025
эл. почта: alex_kostyuk@mail.ru
alex_kostyuk@virtusinterpress.org
www.virtusinterpress.org

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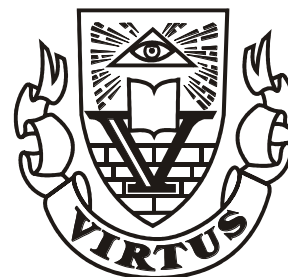
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ANALYSIS OF MAIN INSTRUMENTS OF CRISIS REGULATION OF BANKING ACTIVITY DURING THE GLOBAL FINANCIAL CRISIS OF 2008-2009

*Olya Afanasieva**

Abstract

This paper investigates the role and necessity of system of crisis management of banking activity in present-day conditions. Particular attention is paid to the crisis management that is realized on the level of government and central bank. An overview and comparison of major anti-crisis instruments both in Ukraine and foreign countries is given. The research pays special attention to importance of Asset management companies. It is stated that crisis regulation should have preventive character, oriented at working out instruments and realization of such measures that would minimize the negative effect of external and internal surroundings.

Keywords: System of Crisis Management of Banking Activity, Preventive Crisis Management, Asset Management Corporation

**PhD researcher, Ukrainian Academy of Banking of the National Bank of Ukraine
Email: o.b.afanasieva@gmail.com*

1. Introduction

As the events of last years in world and Ukraine in particular testifies, it appeared that commercial banks and banking systems of many countries were not prepared to crucial crisis influence. It rises the necessity of thorough analysis of peculiarities and instruments of crisis management and regulation of banking activity, and also the necessity to take into account introduced errors in future.

At the time there is no effective working mechanism of crisis management of banking activity oriented towards prognostication, overcoming, limitation of crisis spreading in banking system at all levels (micro and macro). Essential gap in crisis management of banking activity at the time is absence of systemacy and of clear definition of crisis management levels with determining of its types, instruments and specific objectives, that leads to unaccounting of interconnections between elements of the system, to lack of single purpose, and, consequently, to low efficiency of taken measures.

Regarding to this, we consider necessary to propose the concept of multilevel system of crisis management of banking activity. As is known the process of exclusion and overcoming of crisis isn't a short-term temperate phenomenon, but a complex system of crisis management on the level of separate bank and crisis regulation on the level of responsible state bodies. It allows to affirm about presence of multilevel system of crisis management of banking activity.

As efficiency of activity and stability of functioning of banks predetermine the stability of

banking system and economy in whole, so crisis measures should be carried out at all levels - micro and macro.

In the article we set a goal to conduct a research in the direction of determining the features of anti-crisis regulation in different countries and in Ukraine in particular during the global financial crisis that began in 2008.

The paper is organized in the following manner. Section 2 provides a review of related literature both on the crisis management theory and the essence of economic crises. Section 3 discusses the place and essence of crisis regulation in the system of crisis management of banking. Section 4 presents a critical analysis of crisis regulation instruments in Ukraine and the world during the global financial crisis of 2008-2009. Section 5 concludes with a summary of the basic results and a discussion of potential application into Ukrainian banking practice.

2. Literature review

Problems of crisis management were studied and analyzed by following scientists: S.Belyaev, V.Koshkin, M.Meskon, M.Albert, E.Korotkov, I.Mitroff, U. Rosenthal, L.Ligonenko, O.Tereshchenko, I.Blank, A.Gryaznova etc. The issues of banking crises were investigated by O.Baranovsky, A.Demirguc-Kunt, E.Detrageche, O.Kruhmal', V.Kovalenko, A.Tavasiev and others.

S.Belyaev, V.Koshkin (1996) – considered that in the system of anti-crisis activity should be distinguished crisis management and crisis regulation: regulation is implemented on the level of state, and

the crisis management is the task of organizations on microlevel. But the authors defined crisis management as the process of that should be realized in conditions of crisis, that doesn't involve preventive anti-crisis measures.

I.Mitroff (1994) stated that the important aim of crisis management is estimation of influence of threats and crises on functioning of entities. That means that according to his point of view crisis management has preventive and reactive character as well. The scientist didn't analyzed instruments of crisis resolution and stabilization after crisis is neutralized.

U. Rosenthal (1991) researched the character and features of crisis as the phenomenon with high level of instability that is mostly crucial. The drawback of his scientific work is that he didn't take into consideration that crisis can be turning point and an opportunity to improve the situation of the entity.

I.Blank (1999) considered that crisis management should be the system of preventive and reactive measures aimed to recover from the recession and should include methods of diagnostics of threat of insolvency, mechanism of financial turnaround etc. But at the same time the researcher treated crisis management as just a part of entity's administration, not as the separate kind of management that have its own instruments, goals and methods of investigation.

A.Demirguc-Kunt, E.Detrage (1998) stated the macroeconomic and institutional factors of banking crises. The scientists defined the main symptoms of banking systemic crisis.

As it's seen in despite of huge amount of scientific works crisis management theory still have some outstanding questions. Moreover, the problem of crisis management of *banking activity* is rather new, so there are a lot of open issues that need investigation.

3. Place and essence of crisis regulation in the system of crisis management of banking

The necessity of crisis management of banking, including crisis regulation at the level of government and central bank and crisis management at banking institutions is determined by the following:

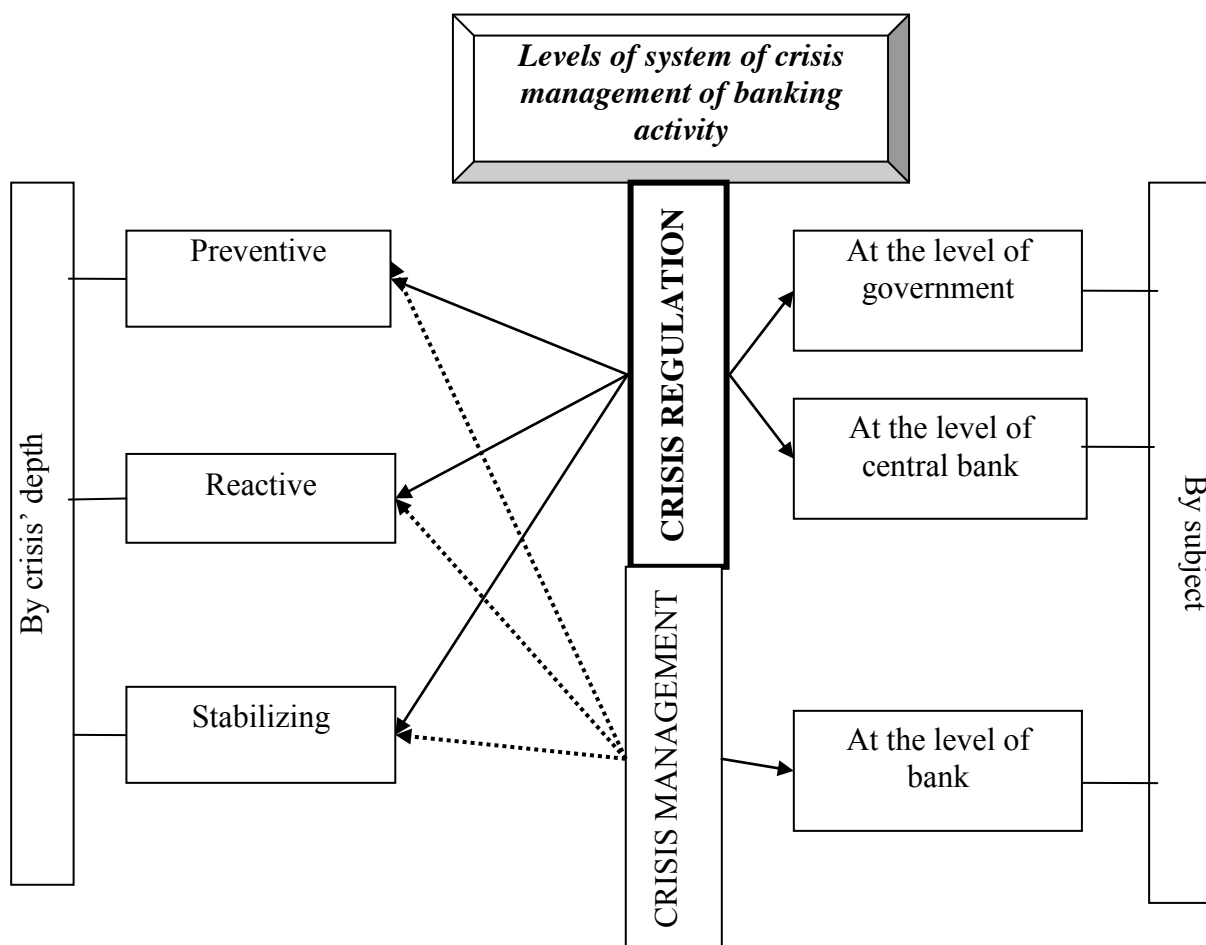
- 1) supporting of banking system stability on the level of certain banks and banking system in whole;
- 2) prevention of crisis in the bank that is a serious risk for the bank's competitors, reducing the overall potential of the country's economy;
- 3) necessity of insecure trends monitoring that may provoke occurrence of crises situations;
- 4) qualitative prognostication and prevention of banking crises' initiation;
- 5) development of strategies in case of crisis at the bank and the banking system;
- 6) timely use of tools of crisis regulation and crisis management, depending on the crisis situation;
- 7) in case of indications of crisis in the banking system the state has to intervene because the negative impact of the crisis quickly spreads to other areas of economic activity and economies of other countries;
- 8) containing the crisis at individual bank's level and at the level of the banking system;
- 9) elimination of external and internal indications of a crisis;
- 10) avoiding bankruptcy of banking institutions;
- 11) ensuring the ability of banks to self-support and stability;
- 12) reducing the negative effects of bankruptcy of banks on the overall state of banking system.

Mentioned reasons that cause the necessity of crisis regulation and crisis management implementation let distinguish three basic tasks that have to be carried out by the system of crisis management of banking activity:

- 1) crisis prevention;
- 2) crisis neutralization;
- 3) overcoming negative consequences of crisis phenomenon and return to pre-crisis parameters of activity.

According to each of defined aims we propose to distinguish preventive, reactive and stabilizing crisis management of banking activity.

Fig. 1. Multilevel system of crisis management of banking activity



As Fig. 1 reflects, multilevel system of crisis management of banking activity can be observed in two sections:

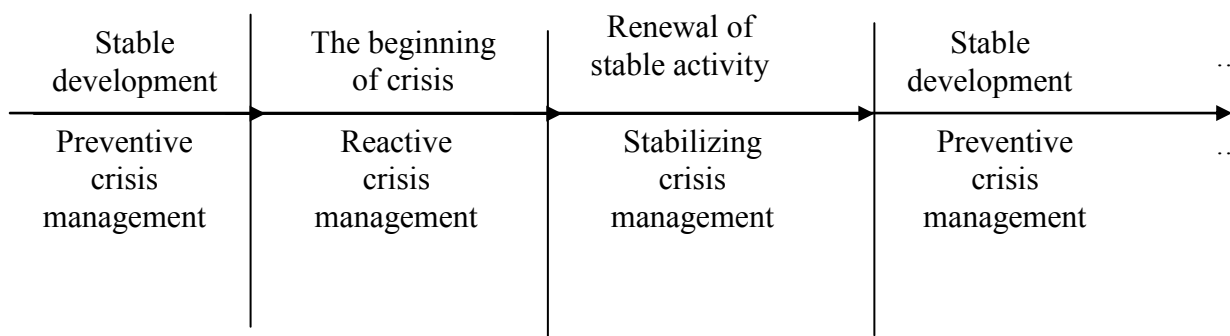
- by subject of management;
- by crisis situation depth in banking system or in certain bank.

Depending on the subject of crisis management of banking activity one can define three levels of this system:

- 1) crisis regulation at the level of government;
- 2) crisis regulation at the level of central bank;
- 3) crisis management at the individual banking institution.

In turn, each of these levels depending on the stage and depth of the crisis may be divided into preventive, reactive and stabilizing crisis management (Fig. 1).

Fig. 2. Sequence of crisis management procedures' implementation according to crisis stage



As Fig. 2 shows, during normal operation of the bank and banking system *preventive crisis management* is implemented. This element of crisis

management plays a huge role in preventing the crisis in the bank as well as minimizing the impact of a systemic crisis in case of its occurrence in the banking

system. Preventive crisis management takes place when functioning of the bank is stable, efficient and specific problems or crises are not expected. The tools implemented at this stage of crisis management, namely monitoring, diagnostics of the crisis, establishing an early warning system in banks, provide as early detection of potential threats as possible and implementation of the *reactive* crisis management.

Thus, during the beginning of crisis, its development and fight against it the bank implements *reactive crisis management*. Tools of this kind of management designed to neutralize the crisis, to restrain its dissemination to other banks and the entire banking system.

If reactive crisis management tools had a positive effect and the crisis neutralized, specific measures should be implemented to return the bank to normal state. This task executes *stabilizing crisis management*. Thus, crisis measures in times of crisis are characterized by certain restrictions (time, financial, etc.), respectively, it has negative effects, so-called "side effect". So, following the implementation of reactive crisis management instruments stabilizing crisis management should be carried out, the aim of which is to restore the normal processes of the bank. While stabilizing crisis management is carried out implementation of instruments targeted at neutralization of the crisis stops.

After the resumption of normal activities, commercial bank returns to the permanent concept of preventive crisis management, which involves restoration of monitoring and diagnostics of the crisis.

We should remark that determined elements of crisis management (preventive, reactive and stabilizing) can be realized in the sequence shown in

Fig. 2. This sequence of elements of crisis management and regulation, to our opinion, is the most effective because it involves managing all phases of crisis, and also includes measures to prevent crisis and neutralize consequences of reactive crisis management. However, in some cases this elements of crisis management can be implemented independently of each other. For example, if unpredictable macroeconomic and institutional factors led the aggravation of the crisis, reactive crisis management tools should be used immediately in the bank. Such character of the system of crisis management in bank is defined as heterarchical (Trydid, 2009).

4. Analysis of crisis management instruments in Ukraine and the world during the global financial crisis of 2008-2009

Let's make comparative analysis of crisis regulation instruments that were applied in Ukraine and in world during the global financial crisis.

In EU countries (ECB Monthly Bulletin, 2007) among state agencies responsible for implementing measures of banking crisis regulation are central banks, financial supervisory authorities and ministries of finance that carry out statutory powers. If banks, despite implemented preventive measures, faced with problems, public authorities can intervene to restore stability of financial institutions or, if necessary, eliminate it and reduce the adverse effect on the entire banking system.

Table. 1 summarizes the major measures of crisis regulation in banks during the global financial crisis in 2008-2009.

Table 1. Major measures of crisis regulation in banks during the global financial crisis in 2008-2009 in some countries

<i>Anti-crisis measure</i>	<i>Country of implementation, peculiarities</i>
Deposit insurance	<p>Portugal. The government allocated \$ 20 billion to banks for deposit insurance.</p> <p>Germany. At the beginning of 2009, the Ministry of Finance has allocated € 1 trillion to domestic banks for insurance of 100% current and deposit accounts of individuals. In total, state insures about 83% of country's deposits.</p> <p>UK. During global financial crisis of 2008-2009 government implemented deposit insurance at the rate of 250 billion pounds against security of big loans and 282 billion pounds for insurance of nationalized bank «Royal Bank of Scotland».</p> <p>Ireland. Banks got € 400billion as deposit insurance.</p> <p>Also among developed countries deposit insurance was implemented in Australia, Switzerland, China, Korea, USA.</p>
Crediting of banks that have temporary liquidity problems	<p>Germany. Banks in Germany are entitled to get preferential loans in amount of € 20 billion, giving the Central Bank the right to influence the operational activity of the bank. Generally, stabilization fund aimed at crediting of banks was equal € 400 billion.</p> <p>Ukraine. Refinancing during the crisis was carried out under limited access to refinance.</p>
Recapitalization of banks, nationalization of insolvent large banks	<p>The amount of funds aims to recapitalize banks in some countries was:</p> <ul style="list-style-type: none"> - USA: \$ 395 billion. - Germany: € 80 billion - UK: 37 billion pounds - China: \$ 20 billion. - Ireland: \$ 5,5 billion - Portugal: € 4 billion - Austria: \$ 15 billion. <p>UK. Government offers he banks of the first level financial assistance in exchange for which the</p>

	state receives privileged shares or part of the share capital. Ukraine. Bank recapitalization was carried out selectively: to get money resources for the capital increase can only separate banks - temporarily insolvent but able to maintain efficient banking activity. State support involves entering of the state in the authorized capital of financial institutions
Purchase of non-performing assets of banks	Australia, Canada, USA, Switzerland, Germany, UK, Japan
Reducing the minimum reserve requirement for banks	Latvia, Iceland, Romania
Purchase of defaulted mortgage assets	USA
State insurance of interbank loans	USA, Germany, Great Britain
Reduction of discount rate	USA (up to 0,25%), Germany (up to 2.25%), UK (up to 2%), China (up to 5.3%), Ukraine (up to 10.25%)
Auctions of currency sale at the preferential rate for borrowers	Ukraine. Currency sale by the reduced rate was carried out for individuals to repay foreign currency loans
Moratorium on deposits withdrawal and crediting in banks	Ukraine. Declaring the moratorium for indefinite period was held at the end of 2008 after the first signs of panic and massive withdrawal of deposits from banks

Let's consider the listed instruments of crisis regulation more detailed.

During the crisis period liquidity management becomes one of the major problems. The purpose of refinancing is to provide banks with liquidity. However, there should be differentiated banks with temporary insolvency due to the crisis and banks that have problems with cash due to the lack of resources and lack of capitalization. Taking that into consideration, refinancing should be carried out for the banks that have sufficient amount of authorized capital. Banks with low level of capitalization must first satisfy legislative requirements of equity capital amount, and only after that they may pretend to receive liquidity from the central bank.

During the global financial crisis in 2008-2009 there was a significant deposit bank run. The low liquidity level is complicated by instability of interest rates and currency. In order to support illiquid banks,

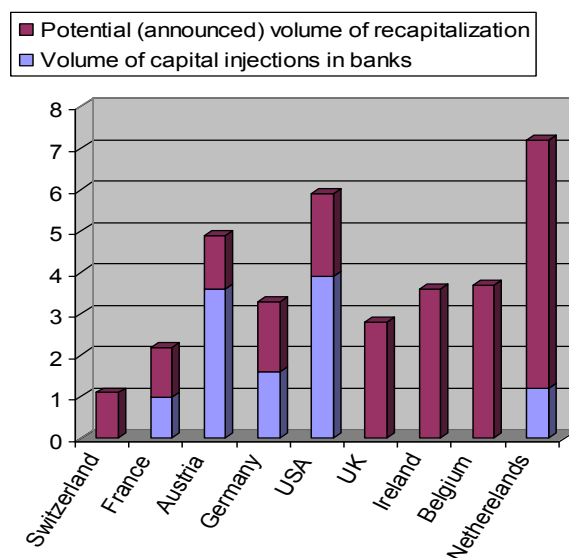
foreign central banks have become a source of financial facilities. State support of the banking system not only helps banks to restore financial activity, but also helps to restore the confidence of bank customers, which, in turn, controls the bank runs. The coordination of policy of the state and banks is an important aspect of crisis management of banking activity. This activity stimulates both depositors and investors of banks.

Anti-crisis financial support of banks by government agencies was carried out in various ways, including:

- participation in equity;
- assignation of loans;
- state guarantees.

Fig. 3 shows the government injections in the leading countries in banks in February 2009.

Figure 3. Volumes of recapitalization in banks in certain countries (Pisani-Ferry J., 2009)



As it is seen at Fig. 3, during the period of global financial crisis the state capital contribution in banks increased significantly. And governments of some countries (France, United Kingdom, Germany, USA, Netherlands) plan to increase cash inflows. So, among 50 largest banks in the EU and the USA, 15 and 23, respectively, have received cash injections from the government.

In the monetary policy of Ukraine the primary regulative instrument usually was the exchange channel. But the financial crisis of 2008 - 2009 has become the motive of drastically change of methods

of domestic monetary policy implementation from monetary policy to the policy of liquidity support of banks by refinancing, - these new tools have become an objective necessity. *As the foreign practice shows, banking liquidity support during the crisis by force of lending by the central bank is an effective and feasible method.* Thus, at the end of 2008, 88 banks in Ukraine have been refinanced by the National Bank of Ukraine (NBU) for a total of 36.937 billion UAH. Table 2 shows the major banks that received the largest volumes of refinancing during the crisis 2008.

Table 2. Banks of Ukraine that received the largest volumes of refinancing during December, 2008

<i>№</i>	<i>Bank</i>	<i>Volumes of refinancing, billion UAH</i>
1.	Nadra	7.100
2.	Prominvestbank	5.850
3.	Oshadbank	4.6
4.	PrivatBank	3.410
5.	Bank Finance and Credit	2.698
6.	Rodovid bank	2.172
7.	Ukrprombank	1.348
8.	Financial Initiative	1.285
9.	Ukrigasbank	1.229
	Total:	36.937

Fig. 4 demonstrates the mechanism of liquidity support that was legislatively established in Ukraine during the global financial crisis of 2008-2009.

As it is seen on Fig. 4, the NBU has allocated a number of refinancing instruments to support liquidity in Ukrainian banks. However, this mechanism is limited for a range of banks due to a number of specified requirements. So, as a result of these restrictions, if banks are trying to receive loans from the central bank, they are forced to reduce their activity in the market. However, according to researchers' judgments (Mishchenko, 2009), it gives a bit subjective nature of cash management in banks, complicating the process.

At the beginning of 2010 to replace the examined above method, there was introduced a new type of refinancing - stimulating loans of central bank. In addition, banks have received an opportunity to get a stabilization loan to restore their activity. Table 3 analyzes the peculiarities of these loans, authorized by the National Bank of Ukraine.

As Table 3 shows not all banks of Ukraine got the access to stimulating loan. Privilege to receive loans had state banks, banks that were nationalized during the period of crisis, banks with regulatory capital of at least 600 mln UAH, and those ones that had no more than 10% of outstanding debt of the total loan portfolio. At the time of the resolution passing, about 20 domestic banks were satisfying the following requirements.

Stimulating and stabilization loans interest rates are quite profitable for the banks: they are more than twice less than similar loans in the market. And in case of stimulating loans banks will have significant revenue owing to relatively low cost of such loans for the bank. However, the NBU has set limits on the total size of the credit cost for the borrower - it should not exceed the discount rate by more than 8%, including all fees and other payments. In addition, the NBU established limits of volumes and access of financial institutions to refinancing of any kind.

Figure 4. Features of liquidity support by means of refinancing by NBU in accordance with normative legal documents in 2009 (on the basis of NBU statements No 262, No 259)

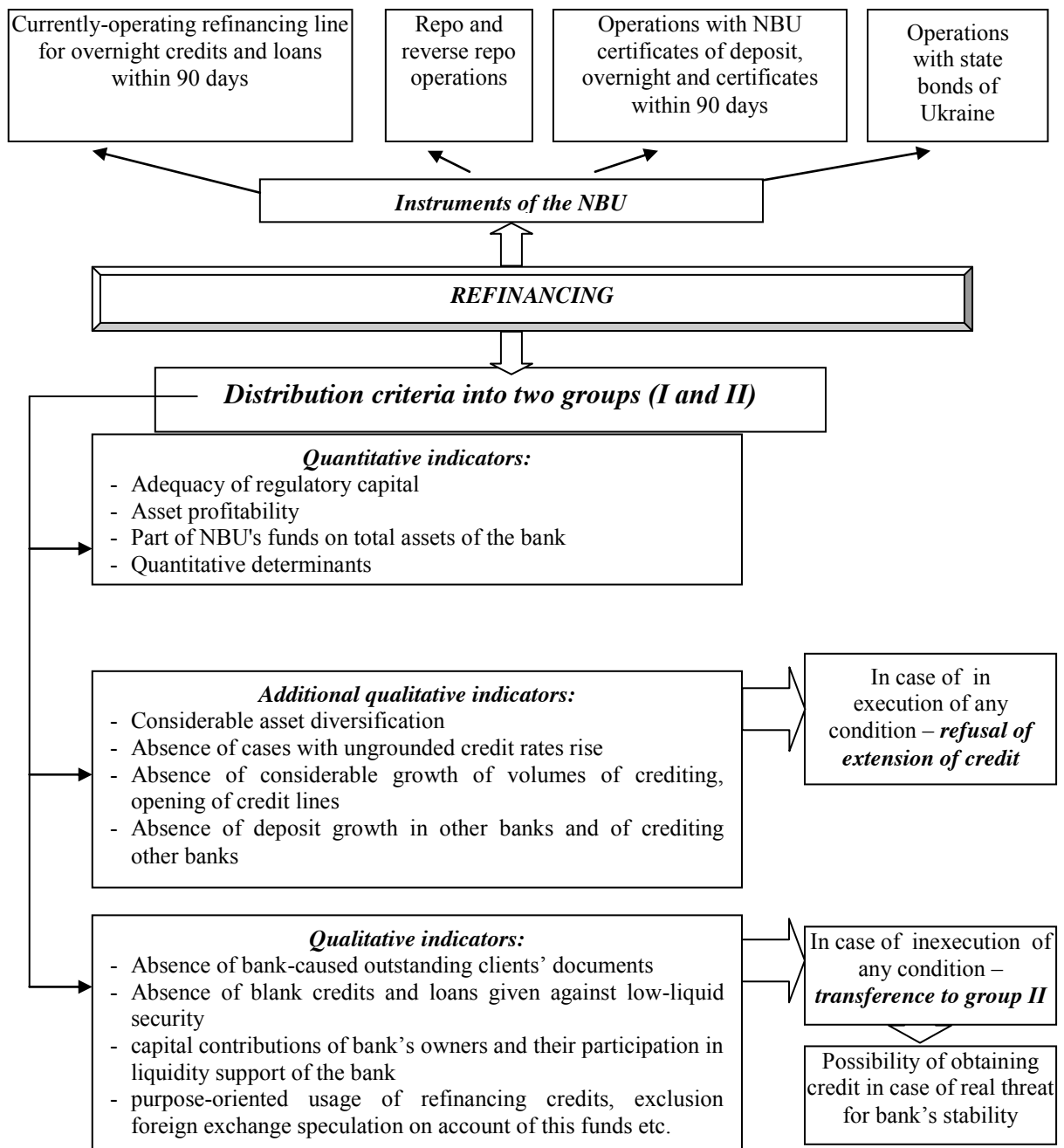


Table 3. Comparative analysis of stabilization and stimulating loans

<i>Characteristics</i>	<i>Stabilization loan</i>	<i>Stimulating loan</i>
Loan purpose	Given by NBU in case of threat for bank's stability with the aim to support liquidity	Given by NBU to support bank's liquidity with the aim to renew crediting of strategic domestic enterprises that are important for state and economy
Credit rate	Discount rate + 0,5-2 %	Discount rate + 0,5-2 %
Banks that can receive a loan	Banks of all classes	Banks of «A» and «B» category
Term	Till 1 year	Till 5 years
Form of crediting	One time or in form of credit line	One time or in form of credit line
Conditions of crediting	<ul style="list-style-type: none"> - Execution of the financial turnaround program by bank's shareholders - Absence of cases of pre-term return of bank's liabilities - Absence of bonuses among banking management Providing NBU with data into informational system "List of borrowers"	<ul style="list-style-type: none"> - Loan can't be directed at refinancing of present bank loans Investment project can be financed by this loan not more than at rate of 50%, in case of submitting the proportions: not less than 20% of owned capital of creditor, not less than 30% of owned capital of the bank

Let's consider the features of the recapitalization of banks as crisis management instrument for banks support. State recapitalization of banks is based on certain conditions. For example, the German government increased financial aid to state bank «KfW» up to 15 billion euros with the requirement to ensure crediting of major corporations to avoid short-term liquidity lack, and to support small regional banks in Germany. So, in many countries, among which China, South Korea, Finland, the government through the recapitalization of state banks stimulates the development of lending of small and medium businesses, as well as long-range economic sectors (Rudolph, 2010).

As noted above, another way of government involvement into the bank capital is *its full*

nationalization. This instrument of state intervention in banks' activities is the most popular in times of crisis: in 57% of the financial crises that have occurred in recent years, carried out the nationalization of banks.

Recapitalization of problem banks is realized on account of sale of state common stock. For example, the UK government has acquired 70% of «Royal Bank of Scotland» shares and 65% of «Lloyds» shares. To maintain the liquidity banks in many countries issued preference shares for purchase by the state. Such measures enable the bank to free up additional capital to restore its activity.

Table 4 gives the leading foreign banks that have agreed to mobilise capital during the global financial crisis of 2008-2009.

Table 4. The leading foreign banks that received state financial aid by means of share sale

<i>Country</i>	<i>Banks</i>
UK	«Abbey», «Barclays», «HBOS», «HSBC», «Lloyds TSB», «Nationwide Building Society», «Royal Bank of Scotland», «Standard Chartered», «Northern Rock», «Bradford & Bingley»
USA	«Bank of America», «CITI Group Inc», «FNMA», «FHLMAC»
Germany	«Hypo Real Estate», «IKB»
Ireland	«Anglo Irish Bank», «Bank of Ireland», «Allied Irish Banks»
Portugal	«Banco Portugues de Negocios»
Austria	«Kommunalkredit Austria»

Part of banks listed in the Table 4 was fully nationalized (e.g. «Northern Rock», «Bradford & Bingley», «Kommunalkredit Austria»). In other banks, state agencies became only one of its shareholders by acquiring a small stake to maintain liquidity.

Certain countries had different ways of implementation of the program of state participation in the bank capital. For example, in the United Kingdom and the Netherlands in recapitalized banks special measures were carried out such as insertion of

state representatives into the Board of Directors. In other countries, for example, in the USA, the authorities remain passive investors. That is, there are two ways to solve the problem: punishment of top management for the bank's insolvency, and vice versa, the absence of government interference in the bank's activities.

As for Ukraine, at the beginning of 2009 the Cabinet of Ministers of Ukraine determined mechanism of recapitalization of banks for the amount of 44 billion. To implement this procedure

government of Ukraine signed an agreement with the World Bank for extension of credit. So, the following conditions for that were defined:

- 1) establishment of the state structure in Ministry of Finance - the Department of recapitalization of banks, whose main functions are elimination of non-performing banking assets, improvement of the procedures of liquidation and sale of banks;
- 2) delegation of powers of the central bank concerning procedure of banks' liquidation to the Deposit Guarantee Fund;
- 3) implementation of recapitalization of banks that have effective activity (Cherny, 2009).

For participation in the recapitalization program banks had to submit proposition to Ministry of

finance; after its consideration specially appointed auditors and lawyers and Cabinet of Ministers make evaluation of the bank.

Thus, during the first half of 2009 three banks were capitalized by the state, among them – «UkrGasbank», «Rodovid Bank» and «Kyiv». Ministry of Finance purchased shares of additional issue in exchange for public bonds, and as a result state became the owner of the prevailing share of the equity capital. Repayment of public bonds should be accomplished in 2017-2019 by the income rate equal to 9,5% annual. Table 5 takes a view of the main features of agreements with recapitalized banks.

Table 5. Peculiarities of banks' recapitalization

<i>№</i>	<i>Bank</i>	<i>Part of bank's shares in state property, %</i>	<i>Amount of public bonds, billion UAH</i>	<i>Bank status by 01.08.2009</i>
1.	«Rodovid Bank»	99.93	2.8	- Preparation of temporary administration withdrawal
2.	«UkrGasbank»	81.6	3.1	- Formation of the board, supervisory board in bank - Introduction of changes into the statute - Budget approval for 2010 - Working out the strategy for 2011-2012 - Working out the financial recovery plan
3.	«Kyiv»	99.97	3.56	- Temporary administration withdrawal - Formation of the board - Planning of the crediting resumption

According to Statement of Cabinet of Ministry No 429 (17.04.2009), only system banks - open joint-stock companies can take part in the state program of capitalization (according to the criteria of central bank of Ukraine). Among all Ukrainian only 26 domestic banks meet this criteria.

In general, banks can increase the amount of capital by following ways:

- injections of cash in the equity capital;
- attraction of funds subject to conditions of subordinated debt.

The latter method was the most attractive, especially with the participation of foreign investors, because the following reasons:

- 1) it has a simpler registration process than the registration of additional issue of shares,
- 2) does not require conversion into national currency that let to avoid currency risk.

Speaking about the refinancing during the crisis some countries worked out additional refinancing programs. For example, concerning USA let's note the following:

- Term Asset-Based Securities Loan Facility (TALF), according to which banks can get credits under securitized loans;
- Repurchase agreements, the essence of which is to conduct repo of largest banks with the U.S. Federal Reserve System.

- However, these programs didn't have due effect at banks because of lack of financial resources allocated for their implementation.

EU countries decided to insure bank deposits on sum of more than 50 thousand euros. Thus, the absolute guarantee to banks have decided to give the authorities of the following countries: the Netherlands on deposits no less than 100 thousand euros, and Austria - for deposits of individuals. If we compare it with Ukraine, in 2008 an amendment in anti-crisis bill was adopted, according to which the maximum size of insured individual deposits in banks was increased threefold - from 50 thousand to 150 thousand UAH.

The beginning of financial crisis in Ukraine was characterized by considerable flight of deposits from banking accounts. Thus, at the end of 2008 NBU adopted the anti-crisis resolution № 413 (04.12.2008), which prohibits pre-term notice deposits' withdrawal. This restriction was aimed at stabilizing the financial market, protection of banks of Ukraine from significant outflow of liquidity. A moratorium on early termination of deposit contracts was to put into operation in banks, although it had an advisory nature.

Thus, before the global financial crisis most banks have been actively crediting, but recently many banks have *significant deterioration of asset quality, particularly the growth of non-performing assets*

(NPA). For example, in banks of India, with relative stability during the global financial crisis, the main problem was actually increase of NPA: during the third quarter of 2008 their share in total assets of leading banks in the country increased by 34,5%.

During the global financial crisis, states implement special programs of absolution from non-performing assets of leading banks. For example, according to such program in USA - **Troubled Assets Relief Programm (TARP)** – the amount of financial aid was equal to 700 billion dollars.

In case of widespread of solvency deterioration of banks, **the creation of Asset management companies is becoming widespread in the global**

banking practice. As the author in (Mishchenko, 2009) points out the primary purpose of these organizations is to purchase of bad loans from banks that became insolvent and to renew their efficient activity by selling the assets at maximum price.

Activity of Asset management companies is based on the need to remove the burden from the banks at the lowest cost of public funds. For this reason, priority is given to loans that became troubled because of macroeconomic banks.

Table 6 shows foreign troubled asset management companies in different countries during banking crises.

Table 6. Asset management companies in different countries

Country	Asset management company	Maximum part of troubled loans during the crisis
USA	Resolution Trust Corporation (RTC)	6.3
Sweden	Securum	21.3
Czech Republic	The Konsolidacni Banka (KoB)	32.2
China	Great Wall Asset Management, Orient Asset Management, Cinda Asset Management, Huarong Asset Management	42.0
Indonesia	Indonesia Bank Restructuring Agency (IBRA)	48.6
Japan	Resolution and Collection Corporation (RCC)	9.7
Southern Korea	Korea Asset Management Corporation (KAMCO)	15.0
Malaysia	Danaharta	30.1
Thailand	The Asset Management Company (TAMC)	51.6
Taiwan	Financial Restructuring Fund	7.5
Mexico	Banking Fund for the Protection of Savings (FOBAPROA)	60.0

In definite countries (USA, Russia, Germany etc.) the creation of state body oriented at purchase and accumulation of bad assets of banks was planning during the global financial crisis.

Let's consider the basic principles on which the activity of Asset management companies is grounded in foreign countries, which is illustrated in the Table 7.

Table 7. Basic principles of Asset management companies functioning

Principle	Essence of the principle
Sale of bank's assets for an adequate market value.	Understating of the price gives up banks incentives to increase the quality of assets and sell them. In turn, excessive cost reduces the probability that the corporation will sell assets at such a high cost
Focusing on maximizing profit	Corporations intend to compensate the cost of assets and minimize the associated losses
The balance between speed and cost of sale of assets	Assets which predicted to increase are sold primarily. Other ones should be prepared for sale in the future
Accordance of corporate structure to purchased assets portfolio structure	Effective organizational structure of the company provides effective asset management

Nowadays Ukraine doesn't have experience in creating banks for bad assets. **But in October 2009 NBU developed for consideration a plan of sanation bank creation based on bank.** Bad loans would be transferred in exchange for securities on its balance. Promissory notes, bonds and certificates of special status for 7 - 10 years are considered as securities. The project of this institution **is based on the Swedish**

model of bank of problem assets. In addition, a similar project of creating a fund to purchase of bad loans from Ukrainian banks is considered by International Finance Corporation.

5. Conclusion

In the context of improving of domestic crisis regulation of banking activity we should mention the creation of Asset management companies. Despite large cost and long-term character of this anti-crisis measures, economists mark out some positive sides of assets restructuring through purchase by specially created organizations:

- 1) providing access for more banks to public funds;
- 2) the concentration of management on crisis resolution instead of wasting time and resources on managing problem loans;
- 3) transparency of estimation of existing assets that remain in bank;
- 4) activation of banks' development and, consequently, stimulation of the country's credit market in general;
- 5) restoration of effective correlation of performing and non-performing assets in banks;
- 6) growth of investment attractiveness of banks.

Analysis of international experience of banking crises affirms that the support of some insolvent banks deepens crisis and increases losses in the future, not reaching financial recovery. For example, *the basic principle of behavioral strategy of the Bank of England* is that assistance should be provided only when local banking crisis has the risk of spreading to other banks and financial system generally. To our opinion, one should use this principle in the implementation of anti-crisis management and regulation of banking.

To sum up, we should mark that crisis regulation should have preventive character, oriented at working out instruments and realization of such measures that would minimize the negative effect of external and internal surroundings. As economies and banking systems of states on macrolevel are in interaction, the analysis of experience of foreign countries is rather vital, especially for Ukraine. Moreover, high importance have the stabilizing crisis management, oriented at renewal of effective banking activity after banking crisis resolution.

In conclusion, it is necessary to underline that in modern unstable economic conditions, substantial attention should be paid to formation of system of banking crisis management at the macro and the micro level. A framework which defines the limits and conditions of anti-crisis strategies of individual banks is exactly crisis regulation.

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