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DEVELOPMENT OF FINANCIAL MARKET INFRASTRUCTURE IN UKRAINE AND EU: SOCIAL DIMENSION

In this paper we would like to make a brief overview of development of financial market infrastructure in Ukraine and EU through social dimension.

To start with it should be named what **financial market infrastructure** is. Here and further financial market infrastructure (FMI) shall stand for banking and nonbanking (stock market) markets infrastructure, while insurance and pensions are to be classified as financial services that are not reviewed here. In general FMI consists of 1) banks and their network of branches that provide services of fund placement and currency exchange, and 2) stock market infrastructure that helps customers to borrow or participate in capital and allocate their resources (stock exchanges, custodians, registrars and brokerage).

Some authors say that Rosenstein-Rodan was the first to use the term of infrastructure in economics about 70 years ago (Rosenstein-Rodan, 1943). It has been merely two decades that we start finding the vitality of FMI in global economics. One of the first places got the Group of 30 which is interested in development of financial markets

in general (Group of Thirty, 1989). Since then there were many publications and documents adopted, but the development of infrastructure takes a long time with low rate of return on investments¹. Several author stressed the need to identify the critical infrastructure and FMI is part of it (Koos van der Bruggen, 2008). Some even tried to outline a theory of infrastructure-led development (Pierre-Richard, 2010).

We should divide social dimension of FMI into **two blocks**: social use of financial market infrastructure (this part is widely used by people in any country) and social results of functioning of FMI (this part consists of employment in FMI, and the most important are the interest rates, which are generated by financial market, and placement of private capital into market and economy through various forms). Unfortunately there are not so many publications that let us know the state of development of financial market infrastructure through social dimension neither in Ukraine no in EU².

There are many **functions** that infrastructure may conduct, but we shall call the ones that Russkova names (Русскова, 2006): the main function (serving the main industries), interim function, function of regulation and **integration** function. On EU side it is important to stress the integration function that helps to integrate industries, regions and countries. As there are many types of infrastructure that have peculiarities in its functioning and functions we take a close look at financial market infrastructure. So FMI is vital as its integration function helps to integrate industries, regions and countries in EU as well as countries in global economy. But national FMI systems are different not only worldwide but even within EU, so the function of integration cannot be fulfilled on a proper level at the moment.

Each of infrastructure industries conducts special functions that differentiate them. Looking from social aspects a well-developed FMI lets people to allocate free capital as deposit or portfolio investment or attract capital if needed. At the same time one of the criteria for FMI being well-developed is the level of interest rate³.

¹ The last is the main reason why there is a need for state regulation and allocation of budget funds. Private investments may lead to higher transaction costs (if any of them are done) or uncompetitive positions of some market participants which has negative impact on the development of market in general.

² It is much more widely addressed in EU, but EU is much more behind the US authors who take global look at the problem of FMI development in general and stock market as well.

³ As it is known, a well-developed FMI moves interest rates down due to minimizing and distributing risks. For instance one may take a cross-listings described by Roosenboom and Dijk.

What is more, FMI as any of infrastructure industries may be named as service part of the economy, which has got big potential of creation of working places¹.

For the purpose of analyzing the social impact one should consider the level of development of physical network of banking and stock market services as well as level of IT penetration on localities, which in many cases may substitute the presence of financial market institution (especially when talking about less populated regions). So FMI is highly connected with other infrastructure activities and uses them to fulfill its functions. That partly explains necessity, urgency and huge investments of EU *i2010*² and digital society in *Europe 2020* strategy.

FMI is highly intensive on the use of **information technologies** which are vital in line with the *Europe 2020* strategy and the *European Employment Strategy*. The multiplication of employment may be found here, as following: use of information technologies brings IT specialists who must be trained and educated, as well as it brings the production of computer, software and telecommunication services. All this needs investment of long-term capital that may be found through effective FMI.

At the same time FMI in **Ukraine** has to make big steps in midterm to meet the level achieved by the most developed countries of the EU. Although since the end of 2010 there is Ministry of infrastructure of Ukraine, but we till now cannot boast of the deep strategy for development of infrastructure or IT sector (thankfully transport gets more attention).

Talking on **EU FMI** we should clearly identify that it is different from national FMI systems as it has rather short history of common development, but looking into the future it should be integrated and more unified. Still EU FMI remains fragmented in equity markets, government and corporate bond markets and collateral, capital-market related activities and retail banking (Financial Integration in Europe, 2011). Meanwhile European Commission may be proud of its projects TARGET and TARGET-2-Securities in different markets of FMI that bring ideas of Single Market and four freedoms into life.

¹ Let us note that Eurostat data shows positive dynamics of labour input index even taking into account the influence of world economic crisis since 2007 (for more details find «Other services labour input index — annual data — (2005=100) (NACE Rev.2)» at http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database Statistics for employment in Ukraine may be found at <http://ukrstat.gov.ua/>.

² *i2010* was the EU policy framework for the information society and media in 2005—2009

Probably the most widely discussed question at the moment is the **future of exchanges** as core of organized financial markets. Many authors agree that changes will be wide and irrevocable (Markku Malkamäki, 1999; Ruben Lee, 2002). In EU it is most probably the development of FMI will lead whether to formation of network of national exchanges with tight international links and synchronous operation or to creation of pan-European exchange as for-profit organization after a batch of M&As.

In social dimension **development of FMI** may be even dramatic in long-term run. We should consider that information technologies lead to absence of physical place of exchange (or any other FMI) and development of virtual market with links worldwide. So, financial centers that are located in many cities will change taxonomy as several authors predict (Gehrig Thomas, 1996; Gaspar, 1998). Probably in global economy there is no need to have too many financial centers, but four to five of them will compete and cooperate simultaneously with influence on regions they present and global market as points of concentration of supply and demand gathered from local clients. Many, but not all countries, will have national financial centers, however the biggest clients go directly to global centers, so at the local level only small and medium sized clients will contact with network of FMI. Such a prediction raises the question of employment, national interests and regulation of FMI on global and local levels.

Taking a close look at the development of FMI in Ukraine we may see that at the beginning of 1997 there were 658 professional securities traders, and about 800 at the end of 2010 (Official website..., 2011). Most of the securities traders were located in few regions and did not have neither diversified local network nor mass Internet-based access to trades. On the other hand the banking sector showed rather high and even excessive level of network development¹. Such a situation offers households to place free capital only with banks which in recent years showed a dramatically negative behavior in crisis times. Such a problem is accompanied by a high level of inflation rates that exceed deposit rates and huge black economy. Altogether this lead people to convert their savings into dollar or euro, that gives no help to development of national economy of Ukraine. We believe that most

¹ In fact the highest level among CEE countries. (Blaschuk-Deviatkina, 2010)

of EU countries do not have such a problematic circle due to distinct Eurosystem policy that keeps low inflation of one of the world currencies.

Finally, we agree that EU and Ukraine do have similar directions for development. EU has various national FMI systems that differ and it will take time to synchronize them and enable the free movement of capital in banking and securities markets more feasible than it is now. On the other hand, here in Ukraine we shall make our lessons from European mistakes and develop FMI within national interests and as close to European model as possible in case if we dream of future joining the EU.

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FINANCIAL STABILITY OF COMPANY AND SOCIAL STATUS OF ITS EMPLOYEES

I. Introduction. In conditions of globalization of economy the questions of analysis and management of the financial state of companies from data of the financial reporting take important place.

In financial analysis of companies research financial reporting takes special place. Unfortunately, for today single point of view towards content and methods of calculation indexes of analysis of balance of companies scientists do not have. In financial analysis of companies research financial stability takes special place. Ukrainian scientists estimate indexes financial stability subjects of economy in different ways. Foreign scientists don't have single point of view. It's serious obstacle in making global comparative analysis financial stability economic subjects of the different countries of the world. But the company's financial stability is influenced by social status of its workers. The stronger the financial stability of the company, the higher the social status of its employees. Therefore, when applying for a job and the work is recommended to investigate the financial condition of the company, including financial stability. To do this, hold the method of analysis.