

# Stock Market in Ukraine: modern trends and problems of development

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**Abstract** – The stock market current state analysis on the grounds of the National Commission on Securities and Stock Exchange for the last three years is presented. Several specific problems and prospects of its further development are examined.

Keywords - stock market, securities, stock contracts, stock lists, trade organisers, state regulator.

## I. Introduction

Stock market is known to be the set of stock market participants and transaction between them according to the location, circulation and stocktaking of securities and derivatives (derivatives) [1].

Currently, globalization of economic development of all aspects of modern economics determines the qualitative and quantitative parameters for the Ukrainian economy. The economy reformation, targeted at overcoming the economic crisis and bringing it to conformity to international standards requires the creation of a favorable investment climate for domestic and foreign investors, formation and efficient development of the national stock market.

## II. The main text

The Laws of Ukraine "On Securities and Stock Market" № 3480 - IV of 23.02.2006, "On State Regulation of Securities Market in Ukraine" № 448/96-VR of 30.10.1996 regulate the stock market in Ukraine.

Functioning of the stock market also is governed by the Laws "On the depository deposit account system of Ukraine" № 5178 - VI of 06.07.2012, "On Joint Stock Companies" № 514 - VI of 17.09.2008, "On business associations" № 1576 - XII 19.09.1991, "On Banks and banking" № 2121 - III of 07.12.2000, "On state registration of legal entities and natural persons – entrepreneurs" № 755 - IV of 15.05.2003, regulations of the National Commission on Securities and Stock Market [2].

On the initiative of the Commission of Securities and Stock self-regulatory organizations of the securities market, uniting professional participants of the securities activities (registrators, traders, custodians and depositories, investment managers), have been established in order to create an effective system of regulation and supervision of the securities market.

The main tasks of SROs are:

- Establishing rules, standards and requirements for the implementation of the securities.
- Establishing of norms and rules of behavior, requirements for professional qualification of members of self-regulatory organizations and monitoring compliance member organizations.
- Promoting the professional members of the self-regulatory organization, development and implementation of measures to protect the rights of members of the self-regulatory organization [3].

National Commission on Securities and Stock Market pursues a consistent policy to establish a common approach to the creation and functioning firms and the transfer of regulatory powers of the securities market. It serves the following purposes:

- To create a unified framework for each type of professional activity in the securities market.
- To ensure market stability and security of work on it for professional participants and investors.
- To enhance monitoring of market participants regulatory requirements, unified rules and standards activities.
- To increase transparency and improving interaction with public authorities [3].

According to recent data of the National Commission on Securities and Stock Market, the percentage of transactions in securities, freely trading on the stock market does not exceed 10.42 points of total turnover.

In particular, in 2012 the proportion of bid operations for individual securities is reported to be around 3.64% government bonds – 14.69%, corporate bonds - 21.10%, municipal bonds – 85.43% [3].

TABLE 1  
STRUCTURE OF THE TRANSACTIONS WITH SECURITIES  
ON THE STOCK MARKET OF UKRAINE IN 2009 - 2012

Type of securities	2010	2011	2012
The total volume of transactions (billion of UAH)			
Shares	556.25	636.07	591.86
Government bonds	354.12	855.55	1217.06
Bonds of enterprise	69.50	103.70	124.89
Municipal bonds	0.50	1.67	7.48
Securities Collective Investment Institutions	115.49	114.42	137.74
Notes	316.11	358.28	412.08
Derivatives	3.75	23.99	24.91
Others	125.66	77.42	14.85
Total	1541.38	2171.10	2530.87

\* Calculated according to the annual report of the National Commission on Securities and Stock Market in 2012 [3]

Despite of the certain share augmentation of securities transactions, carried out on the stock market, there is reason to believe that the stock market continues to be very reserved: about 89.5% of all operations on the stock market in question are performed in the so-called private mode. The fair value determination and validation of the domestic securities yield are impeded by deficit of securities issued on the free market and bond transactions.

TABLE 2

REVIEW OF GLOBAL STOCK MARKETS FOR FEBRUARY 2013

Country	USA	France	Russia	Ukraine	Japan
Name of index	SSP500	DAX	RTS	PFTS	Nikkei25
The value at the end of the month	1514.68	7741.7	1534.41	363.64	11559.36
Monthly change,%	1.11	-0.44	-5.41	8.09	3.78
Change YTD%	6.20	1.70	0.49	10.63	11.20
Changes in the last 12 months,%	10.91	12.92	-11.56	-33.08	18.88

\* <http://www.bank.gov.ua> [4]

The above mentioned factors have negative impact on the use of securities as a tool of collateral, thus the possibilities of the National Bank of Ukraine decrease during refinancing and transactions in the open market.

There are 10 trade organizations on the stock market (regulated market) of Ukraine, the largest one is known as Public Joint Stock Exchange "Perspective" (hereinafter - SE "Perspective") and Open Joint Stock Exchange First Stock Trading System (hereinafter - the FSTS Stock Exchange).

According to the National Commission on Securities and Stock Market volume of contracts in securities during January - June 2013 amounted to 187 929.58 million as a result of trading at stock exchange, including 132 714.10 million carried out by SE "Perspective", that is 70.62% of the total volume of exchange-traded contracts, 38 048.35 million by the FSTS Stock Exchange, representing 20.25% of the total volume of exchange-traded contracts [3].

An important indicator of the stock market and the financial system in general is the ratio of share capitalization of listed companies to GNP. If we trace the dynamics of the figures in Ukraine since 2008, when it was 9.0%, it should be noted that the figure rose to 13.7%. At the end of 2012 it reached 19.66%. In 2012 due to the increase in the number of securities of issuers of listing, a level cap moderately increased [3].

In 2012 the amount of investments in the economy of Ukraine through the stock market instruments reached 67.23 billion.

As for the specific performance of the stock market, the results of trading on the stock exchanges volume exchange contracts (agreements) with securities in 2012 reached 263.67 billion. An increase of 11.99% in comparison with to 2011.

At the end of 2012 1731 shares are included to exchange lists of trading that is more than almost 40% in comparison with the end of 2011. As for the bond market, in 2012 there were 332 issues bonds worth 51.39 billion. Compared with 2011, the volume of registered issues of corporate bonds increased by 15.48 billion or 43.11% [3].

The main task of the securities market is to ensure conditions for investments in enterprises, these enterprises access to cheaper, compared with the other sources of capital. Shares and bonds are the most effective source of additional financial resources to fund ongoing business, long-term projects and state enterprises [2].

Domestic support of Ukrainian stock market is not at the highest level. Ukrainian institutional investors (pension funds, insurance companies place their reserves in liquid equities, collective investment institutions) are significantly inferior foreign investors in terms of funds invested in the Ukrainian stock market. Western investors are very sensitive to any innovation, namely their capability to react rapidly distinguishes them from domestic investors.

It is typically of the domestic stock market to be of low capitalization and limited liquidity. Also it is characterized by the restriction on the share of securities that are in free circulation, and the prevalence of uncontrolled stock market over organized one.

This situation distorts pricing - the share price is significantly affected not only by the value (profitability) of assets as property rights, but by providing shareholdings. Also it should be added, that the major obstacle for the development of the stock market in Ukraine is the low activity of the population in the market, connected with the general low level of financial literacy of the population of Ukraine, misunderstanding the role of the stock market and the nature of its financial instruments and the low-income population.

The National Commission on Securities and Stock Market worked out the project of the Programme of the Stock Market Development 2012 – 2014, aimed at solving problems and promoting further development.

The Programme of the Stock Market Development outlined the following objectives:

- Increasing of capitalization, liquidity and transparency in the stock market.

- Improving of market infrastructure and ensuring its safe and efficient operation; improving of mechanisms of state regulation, supervision in the stock market and investor protection [3].

## Conclusion

Hence, improving of performance and increasing of popularity of Ukraine Stock Exchange, especially its successful development will attract investments into the national economy, its convergence with the world economy and following global trends of development, and hence the positive development in the national economy in general.

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