

UKRAINIAN STOCK MARKET: PROSPECTS OF FUTURE DEVELOPMENT

Annotation. The history of Ukrainian Stock Exchange development, the mechanism of its functioning, the peculiarities and prospects of stock exchange and financial market development in Ukraine were considered. The main problems of successful development were outlined. Some trends of further development were regarded.

Анотація. Розглянуто становлення української фондової біржі, механізм її функціонування, особливості й перспективи подальшого розвитку фондової біржі та фінансового ринку України. Виділено основні перешкоди подальшої успішної діяльності та відзначено тенденції розвитку.

Аннотация. Рассмотрены становление украинской фондовой биржи, механизм ее функционирования, особенности и перспективы дальнейшего развития фондовой биржи и финансового рынка Украины. Выделены основные причины, мешающие дальнейшему успешному развитию, определены тенденции дальнейшей деятельности.

Keywords: stock exchange, financial market, investments, order-driven market, online trading, local investors, trading sessions, liquidity, equities, trading volumes, capitalization.

The objective of this paper is to single out the peculiarities and prospects of the Ukrainian Stock Exchange and financial market development. An attempt to analyze the roots of emergence of certain stagnant features of the financial sector of the present-day Ukrainian economy, which destructively affect the entire investor and business community of the country, makes the work topical and challenging.

The theoretical basis of the present paper is furnished by the works of the following researchers: Kolesova I. V. (KNEU), Stryzhychenko K. A. (KNEU), Shkolnik I. O. (Sumy), Robert L. Smith (USAID), T. Dimitrov (Vienna), A. Sandul (Vienna).

It is generally acknowledged, that stock markets today have become an indispensable part of the world economy. Stock exchanges exist in all major countries of the world to promote investments and trade. It is a well-known fact that the history of the world stock market is several hundred years old, but Ukraine's stock market came into existence only 21 year ago. Its history began when Ukraine became independent in 1991 and established the Ukrainian Stock Exchange (USE) [1; 2, p. 10; 3].

When the Ukrainian Stock Market came into existence, it was viewed as a centralized and unified one. But with the entry of new entities and taking into account its future development, the Ukrainian Stock Market was soon divided into two independent stock exchanges, namely the Ukrainian Stock Exchange (or USE) and the PFTS (Priority-First Tree Search index). The Ukrainian Stock Exchange was established on the 29th of October 1991 and is a closed joint-stock company. It has five branches and there are approximately 166 broker houses registered with the USE [3; 4, p. 111]. Of the two stock exchanges, the PFTS is by far the larger. The market capitalization of the PFTS was estimated at approximately \$ 20 billion and had an average of 220 companies listed on the exchange during the past 10 years. Being established only 21 years ago, it is considered to be a relatively young exchange and with many successes safely secured, it is predicted that the PFTS would only grow bigger and stronger in the future [5, p. 11; 6; 7].

Researchers underline, that the problems of the Ukrainian Stock Exchange functioning are connected with low market liquidity and low capitalization, which hit Ukrainian funds. The Ukrainian Stock Market has long been known for its roller-coaster moves. At least once in every five years Ukrainian equities rank among the best performers in the world, yet, the same applies to the downside movements. In 2004, Ukraine's PFTS Index rose a stellar 204 %; in 2008 it fell down by 74 %. That is why most foreign investors associate Ukrainian Stock Exchange with "up and down" irregular and unpredictable movements [2, p. 12; 3; 5].

In addition, experts believe that one of the key problems of the Ukrainian Stock Market is that it is not needed by the real sector economy [8; 9, p. 18]. Neither large, nor medium, let alone small businesses, show particular interest in offering their stock to public. In the good old days, Ukraine's corporations and companies did not worry about entering the market and got financial resources by borrowing from banks [10]. Deprived of the possibility to get loans during the financial crisis, the companies experienced temporary inconveniences, since they were not able to attract funds through the stock exchange. This factor, however, did not turn into a stimulus. The reluctance of companies to go public and the absence of investment resources inside the country that they needed so desperately became the major stumbling blocks [10 – 12].

The tendencies listed above could be substantiated by the following facts. One of the remarkable events on the

Ukrainian stock market in 2011 – 2012 was the emergence of local retail investors whose number exceeded ten thousand at the end of 2011. This became possible thanks to launching the anonymous order-driven market by the Ukrainian Exchange in 2009, which quickly prevailed over the stagnating quote-driven system relied on by the PFTS Exchange [6]. Taking advantage of the low-cost online trading, local investors began filling the gap left by foreign institutional investors, who fled the Ukrainian Stock Market during the 2008 financial crisis. Equity trading volumes began to recover, while the paid market-making program offered by the Ukrainian Exchange softened the market volatility, as researchers pinpointed [6; 12]. Yet, in August 2011 the fledgling stock market again nearly failed the test posed by the unraveling European credit crisis. Notwithstanding the withdrawal of a number of market-makers from the exchange, the roots of the problem lie deeper. Only ten of 189 companies quoted on the Ukrainian Exchange are actually listed. The rest are just admitted to trading. Experts believe that this trend illustrates the core problem plaguing the country's stock market – the inferior corporate and public governance [2, p. 10; 3; 7].

Trading volumes, according to certain research findings, are supposed to significantly improve with the arrival of local institutional investors to the stock market. At the end of 2011, the number of the registered institutional accounts on the Ukrainian Exchange approached 2000, more than a third of which were Ukrainian brokers [3; 11].

Experts stress that the direction of the Ukrainian Stock Market development in the nearest future will greatly depend on the global trends. With the resolution of the European debt crisis and positive corporate earnings flow, the Ukrainian Stock Market can demonstrate a close to 100 % return. At the end of 2011, foreign institutional investors resumed buying Ukrainian equities propping up the liquidity and inspiring more local retail investors to enter the market. It is believed that this favourable momentum should be supported by the government, which, in an effort to increase its budgetary revenues, is likely to continue closing tax loopholes and tightening regulations to minimize transfer pricing [5, p. 11; 7].

The following recommendations, based on the works of Shkolnik I. O. and T. Dimitrov, suggest a long-term strategy to achieve this goal:

The government of Ukraine has to undertake a wide range of supportive measures for Ukrainian investors in order to increase stock market capitalization and liquidity, whose trading volumes should significantly improve with the arrival of local institutional investors to the stock market.

The laws concerning stock exchange are to be updated according to the European standards to assure both foreign and local investors of the safety of trading in Ukraine.

The psychology of local business owners has to be changed. The initial aim of each Ukrainian company should be an increase of its share value, not an increase in profits, as it is nowadays.

The Ukrainian Stock Exchange has significant prospects, but the existing instability and low trust of investors to USE should first be overcome. Financial market needs new investments, as well as legal support provided by the government, which would assure a successful dynamic development of the Ukrainian Stock Exchange.

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