

Ukraine

Weak protection of security rights

Most of Ukraine is covered by branch networks of both domestic and foreign-owned banks (Chart 1). Ukraine has been hit hard by the global financial crisis and an increasing number of banks mentioned that insufficient credit demand, including a lack of creditworthy customers, was the main constraint to lending between 2007 and 2011.

The percentage of Ukrainian banks reporting that banks “frequently”, “almost always” or “always” have to make some irregular payments or gifts to court officials jumped from 48 to 76 per cent over the period of 2007-11 (Chart 2). This significant increase of 28 percentage points may partly reflect the large number of court cases resulting from non-performing loans in the country that continue to clog the judicial system.

There has been a marked reduction in foreign currency lending in Ukraine over the period 2007-11 with 60 per cent of banks reporting a decrease. The main reasons reported for this decline are changes in foreign currency lending regulations

and a change in the banks’ own risk management policies (Chart 3). With regards to regulation, the government introduced a ban on foreign currency lending to households in early 2011. In addition, there were several reserve requirement hikes on foreign currency deposits and the central bank tightened rules on the open foreign currency position of banks.

Virtually no Ukrainian banks agree that current laws on pledges and mortgages enable an efficient enforcement of security rights for lenders or adequately protect creditor rights. There is also a significant lack of confidence in the court system. Not one of the 35 surveyed banks in Ukraine agreed that the court system is fair and impartial, or quick and efficient.

Ukrainian banks also express little confidence in their bank regulator. Only one-third of all banks, the lowest in the region, “agree” or “strongly agree” that the regulator is fair and impartial while slightly less think the regulator is quick and efficient, again the lowest in the region (Chart 4).

Chart 1 Bank localities by ownership

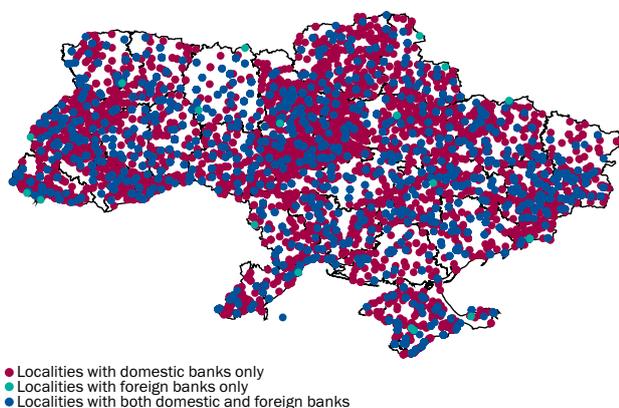


Chart 3 Reasons for decrease in FX lending



Chart 2 Change in frequency of irregular payments/gifts to court officials 2007-11

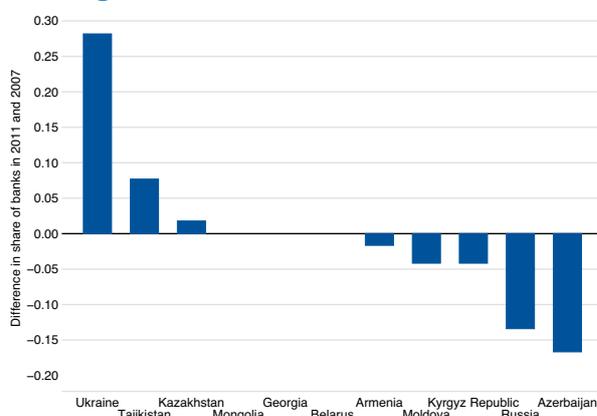


Chart 4 The banking regulator is...

