

Abstract: The entity of financial markets globalization is researched, present trends and factors which influence on global financial markets development are determined and analyzed. The article deals with the functioning of financial services market of Ukraine, solutions and measures to provide the integration of Ukrainian market of financial services into the global financial market.

Key words: financial market, world financial market, globalization, financial markets globalization, stock market, market capitalization

Introduction

In a broad sense globalization of financial markets implies the process of eliminating borders between national markets, easy and efficient flow of capital between countries.

Global financial market has been developing over many decades. This process became aggressive in the United States when officials implemented restrictions on the deposit interest rates for U.S. banks, so called 'Regulation Q' issued in 1933 during the Great Depression. Investors are always interested in getting more yield so they were forced to transfer their funds to non-U.S. banks that had no such restrictions at that moment of time. The result was the emergence of Eurodollar market and global money market.

Gradually the demand for long-term loans began to emerge. That marked and determined the beginning of the global capital market. In the 1980s with the forming of global financial centers such as New York, London, Zurich, Frankfurt-am-Main, Tokyo the global financial network originated, which was based on the global financial market.

1. Characteristics of global stock market and the stock market of Ukraine.

Primarily the scale of the stock market of a country is characterized by the following indicators: shares market capitalization, its share in GDP, shares trade volume, the number of issuers that are regularly quoted (listed). Most resumptive indicator of the equity market scale is an index that shows the value of the stock market of the country at the appropriate date - capitalization. [1]

According to the World Federation of Exchanges, for the period 2000-2012 the global stock market capitalization has almost doubled, from 30.956 to 54.570 trillion US dollars (Table 1).

Number of companies listed on stock exchanges worldwide from 2000-2012 raised on 50% - from 31.8 to 46.8 thousand issuers (Figure 1) [1].

All three time zones have grown during the decade. Even though the Americas time zone is still the largest region (although much less than before), the Asia-Pacific time zone share has grown significantly, while the EAME (Europe – Africa – Middle East) area has almost remained stable.

Table 1.
Regional and total WFE domestic equity market capitalization

Time interval	Americas	Asia-Pacific	Europe Africa Middle East	Total WFE USD bn
2000	16450	4918	9588	30,956
2001	14852	3968	7775	26.595
2002	11931	4437	6465	22,833
2003	15672	6264	8691	30,627
2004	18180	7535	11133	36,848
2005	19458	9310	12120	40,888
2006	22653	11838	16159	50,650
2007	24320	17920	18615	60,855
2008	13896	9221	9467	32.584
2009	18.923	14.594	14.225	47.753
2010	22173	17435	15.247	54.884
2011	19.789	14.670	12.942	47.411
2012	23.193	16.929	14.447	54.570



Fig.1 – Dynamics of the number of companies listed on stock exchanges worldwide for years 2000-2012.

During the analyzed period, the most part of global capitalization (approximately 50%) provided by only four countries - the U.S., Japan, China and Britain. The absolute leader in terms of capitalization is the U.S. (Fig. 2), although during last decade its share decreased by 10%. Almost in two times increased the share of Asia-Pacific time zone (from 16% in 2000 to 31% in 2012).

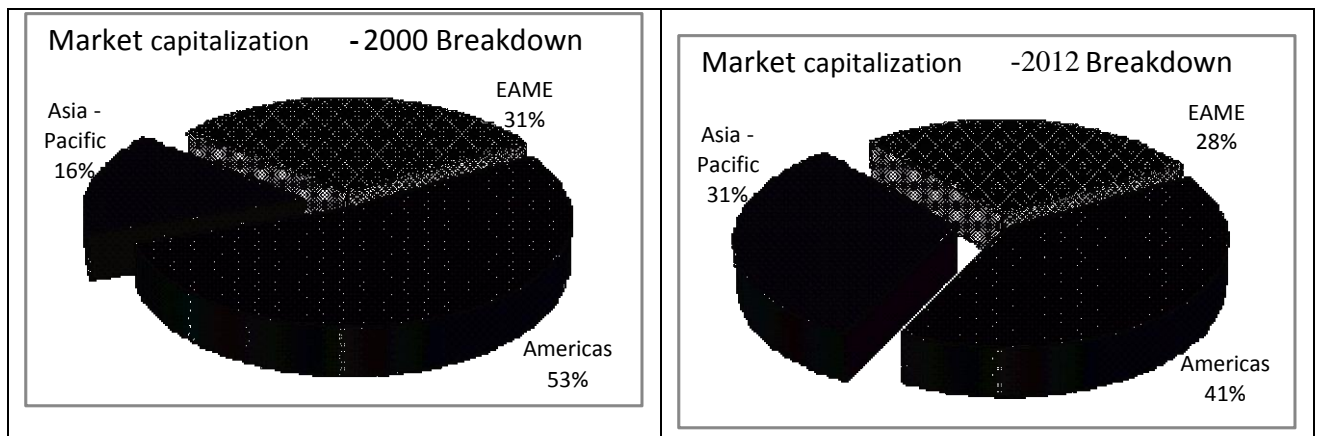


Fig.2 – Restructuring of global capitalization for the period from 2000 to 2012

Leading role in the global financial turnover belongs to exchanges, almost 200 exchanges operate all around the world. In the UK there are 22 stock exchanges (London, Glasgow, Birmingham, Liverpool). London Stock Exchange is one of the world's largest financial centers. More than half of its securities turnover is of foreign origin. In France, there are 8 exchanges (Paris, Lyon, Marseille, Lille, Nancy, Bordeaux, Nantes, Toulouse), where the largest in Paris. In Germany - 7 exchanges (Frankfurt am Main, Dusseldorf, Hamburg, Munich, Stuttgart, Bremen, Hannover), the largest - in Frankfurt am Main.

The main international organization of global mechanism of stock exchanges is the International Federation of Exchanges (WFE), which includes 59 member exchanges from New York, London, Deutsche, Tokyo and many others. Development of WFE members reflects present trends in the real world.

Excluding the positive factors for the development of stock markets in Central Europe there is a trend to impairment of their utility (especially to small stock exchanges of Europe). So nearly in five to seven years in Europe will be only three or four exchanges. As the evidence of this trend could be the association of stock exchanges in Paris, Brussels and Amsterdam, the Portuguese stock exchange (also with joint collaboration with the Warsaw SE) in a single Euronext exchange.

The same trend is observed in Russia and Ukraine.

Moscow exchange is largest group of exchanges in Russia and Eastern Europe as per the volume of trade and the quantity of clients. Established on 19 December 2011 as a result of merging exchanges MICEX and RTS. Included in the top-20 leading world sites by the volume of shares trade and total capitalization of shares listed. Takes a 9-th place in the top-10 largest exchanges in the derivatives trade. [2]

The decision on establishment of Ukrainian exchange (the most dynamic site in recent years in Ukraine) was taken by RTS in conjunction with the participants of ukrainian market in 2008. Structure of shareholders UX [3]: RTS - 22%, ukrainian exchange holding (also owned by RTS) -21%, others - 57%.

2. Current state of the Ukrainian stock market, its achievements and challenges

In present conditions there is no chance to provide the growth of competitiveness financing the development projects only from the companies profits, without raising funds from big business. For this reason the struggle for investment resources never stops in conditions of modern global competition. Many Ukrainian companies face today with the need to find in investment sources on the capital market.

In the development of international relations, Ukraine is trying to find its niche in the international capital market.

Ukrainian government recently managed to accommodate eurobonds on 2 billion dollars and this fact, in particular, testifies that is not so bad with investment into Ukrainian securities, especially government-papers.

In Ukraine there are 11 stock exchanges.

Despite the fact, that the nominal share of the Ukrainian exchange (UX) takes only 21% of volume of organized stock market of Ukraine in 2010, UX leads in corporate shares trade. Its competitors mainly concentrated on other instruments. Exchange "Perspectiva" nominally takes 28% of market and specializes in investment certificates and PFTS (46%) - on bonds. At 2011 the Ukrainian exchange beat its competitors, reaching the 36% market share. The share of PFTS shortened to 32% and "Perspectiva" took 31% of total volume of market. [3]

Comparative evaluation of UX and companies analogues shows that Ukraine has a huge market growth potential with a small volume of trade at the moment (Table 2, 3).

Table2
Comparative evaluation of UX and companies analogues. [4]

Stock Exchange	Country	Mcap, mln.USD	Sales, mln.USD	Net profit, mln.USD	Annual turnover, mln.USD
RTS	Russia	1040	102	40	110
NASDAQ	U.S.	4553	3174	395	151
Hong Kong Exchange	Hong Kong	23669	853	647	399
BM&F BOVESPA SA	Brazil	14855	1159	701	50
UX	Ukraine	19.9	1.9	0.2	3.5

Sources: Bloomberg, company's data, calculations of UTC Capital [4]

Table3
UX and company analogues: comparative indicators.[4]
(P/T - capitalization / turnover, P/S - capitalization / sales, P/E - capitalization / net profit)

Stock Exchange	Country	P/T	P/S	P/E
PTC	Russia	0.009	0.2	25.8
NASDAG	U.S.	0.030	1.4	115
Hong Kong Exchange	Hong Kong	0.059	27.7	36.6
BM&F BOVESPA SA	Brazil	0.295	12.8	21.2
Company analogues (median)		0.045	11.5	23.5
UX	Ukraine	0.006	10.6	123.2
Potential of growth		676%	8%	-81%
Target price as to multiplier, USD		6170	862	152
Weight in total estimatee		33%	33%	33%
Total estimate	2394 USD			
Potential of growth	201%			

Sources: Bloomberg, company's data, calculations of UTC Capital [4]

Thus, the fair value cost of shares listed on UX three times exceeds its current value. This potential has a chance to be implemented in the process of possible merging of UX with PFTS after merging their major shareholders MICEX and RTS.

Despite the unfavorable external state of market, the domestic stock market in 2011 showed positive dynamic. Thus, the volume of securities trade market increased 1.5 times in comparison with 2010 and reached 2171.1 billion UAH, exceeding the GDP amount on 854.4 billion UAH [5].

The main task that securities market must perform - provide appropriate favourable conditions for attracting investment. And this indicator has also increased. So, the volume of investments into the economy of Ukraine through the instruments of the stock market amounted to 173.3 bln. UAH. Which is almost two times more than it was in 2010.

The total volume of securities emission also showed a significant increase. By the end of the year 2011 its amount was 1014.78 billion UAH, which is almost 200 billion UAH more than above mentioned index in 2010.

In 2011, comparing to the same period of 2010 the volume of exchange contracts (agreements) with the securities increased almost doubled and totaled 235.44 billion UAH.. The exact amount of increase is 104.55 billion UAH with the actual volume of 2010 - 131.29 billion UAH.

Such high activity of the stock market led to the growth of an organized market of securities and it took the share of 13.16% of all securities transactions within the securities market of Ukraine (Table 4) [5]. This shows the increasing role of stock markets in the financial system as a whole.

Table 4
Attracting investment into Ukraine through the stock market instruments in 2007 and 2011., billion UAH.

	2007	2008	2009	2010	2011
The amount of investments	93.21	129.15	137.1	92.9	173.38
Volume of exchange contracts with securities	35.15	37.76	36.01	131.29	235.44
Share of organized stock market, %	6.49	5.5	4.5	10.74	13.16

If we talk about financial instruments, in 2011 the largest share in total volume of registered issues of equity securities accounted for securities of insitutes of collective investment (ICI – collective investment funds, defined as separate financial structures under ukrainian legislation) (47.17%) and shares (32.46%) worth 58.16 billion, which is more than year 2010 indicator on 17.57 billion UAH. (Fig.3).

The structure of securities issue in 2011

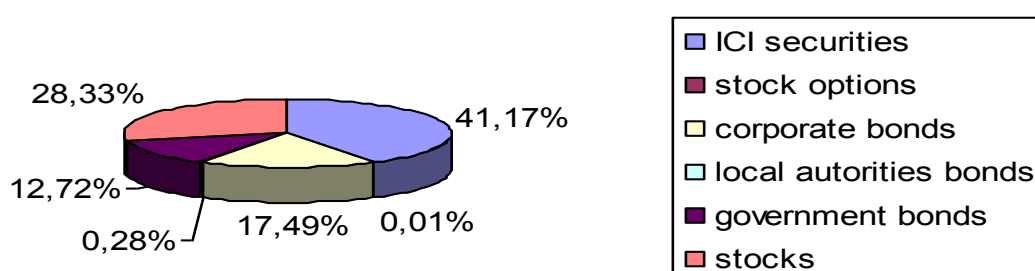


Fig.3 – The structure of securities issue in 2011

This testifies the intensifying of investment activity in corporate sector and reducing of speculative component in the stock market [5].

These above mentioned data show that the stock market steadily recovering from the global financial crisis. Despite the positive trends in Ukraine's stock market, today it is one of the weakest elements of local financial system, due not only to the consequences of the global financial crisis, but also the passivity of its development, multidirectional tasks to be solved. For the revival of the stock market such conditions must be created so that local companies would be able to attract new volumes of real capital.

3. Areas for further development of Ukraine

Western countries to a certain extent are interested in the fact that Ukraine would perform much faster market transformation of the economy. However, global commodity producers in most cases will not be pleased with the appearance of another competitor in person of Ukraine.

Ukraine has two directions of further development, aimed to the European integration or in the opposite integration with the Customs Union of Russia, Belarus and Kazakhstan.

The economic potential of the EU by its basic quantitative and qualitative parameters significantly dominates the corresponding figures of the Customs Union. However, available economic, political, technological, institutional and other "filters" in the European Union hold its economic ties with Ukraine at the moment, which are actually at the pre-integration stage.

Ukraine's interest in the Customs Union is primarily in getting energetic resources from Russia and Kazakhstan. Also within this area available huge consumer market for distribution of domestic products, including finished articles, which have no enough competitiveness in developed countries.

To determine the role and place of Ukraine in modern foreign relations, should clarify its total resource potential and structure of foreign economic relations. The latter are formed with the export and import of industrial and agricultural goods, capital, labor and services (production, transportation, insurance, marketing, etc.).

Basing on the data from tables 5 and , could be concluded that Ukraine has not changed the structure of exports and imports over the last decade. As before, the major part of export goes to Russia.

It should be emphasized that the current scale and structure of foreign economic activity of Ukraine does not correspond neither any of its interests nor potential opportunities. The international trade takes an important place in foreign relations. About 85% of all Ukraine supplies abroad accounted for raw materials. However, the level of industrial development of Ukraine greatly exceeds the global average, and with sufficient grounds it could supply to the global market many articles with a complete technological cycle of production.

Ukraine is characterized by its high intellectual potential. Literacy of its population is almost 100%.

Natural and climatic conditions of Ukraine allow to grow up to 50 million tons of grains and legumes, and to produce up to 6 - 7 million tons of sugar, which may not only fully cover the internal needs of the country in foodstuffs, but also to perform their partial export abroad (e.g. grains – 7 - 8 million tons, sugar - to 2 - 3 million tons annually).

Electricity powers enable Ukraine to produce up to 300 billion kWh of electricity per year. Approximately 1/10 of produced electricity could be exported on assumption of stable energy resources supply.

For development and improvement of foreign economic relations the considerable importance has the provision of Ukraine by minerals. Ukraine has significant resources of coal, iron and manganese ores and native sulfur, mercury, titanium, uranium, salt, gypsum, various building materials.

Natural resource potential (NRP) Ukraine is equivalent to 272.5 billion USD. Its largest part belongs to the eastern regions of the country. In structural terms, the lead in the NRP of Ukraine takes land resources component (44.38%), followed by mineral (28.26%), water (13.08%), recreational (9.64%), vegetable (4.17%) and fauna (0.47%) components.

At the moment there is some slowdown in the world economy, which accordingly affects the local market of Ukraine. Under the influence of both internal and external economic processes Ukraine experience a number of problems. Such as:

- the price of natural gas increase;
- increasing world market competition in those kinds of products which form the basis of ukrainian exports, primarily metals;
- investment climate still remains unfavorable despite political declarations at the highest level;
- further opening of the domestic market is accompanied by increasing competition between domestic and foreign companies, particularly in the areas of agriculture and food production, consumer commodities;
- rapid increase in social spendings in various forms, unbalanced structure of government debt and dynamics of its modification create a significant risk to the fiscal system;
- consistently high pension fund deficit that threatens the fiscal stability in whole;
- lack of reforms in agriculture;
- privatization process almost suspended, while the problem of property rights observation has escalated.

4. Problems and prospects of Ukraine's stock market

Major problems of Ukraine's stock market are the following:

- Low capitalization of the stock market (Table 3);
- Minor share of organized securities market (Table .4);
- Underdeveloped corporate bond market (government securities remain dominant on the stock market, which to a certain extent prevents the issue of new securities by corporate sector);
- Inconsistency of exchange trade to global trends;
- Absence of a single central depository;
- Lack of domestic derivatives market;
- Lack of transparency of ukrainian stock market (significant information concerning the stock market not always has a sufficient disclosure).

Imperfect competitiveness of the stock market is the cosequence of the fact that there is not enough of supportive government policy on taxation of the stock market.

The problem of tax incentives for stock market development requires exemption from profit tax and value added tax for nonprofit institutes of the stock market, abolition of fees for registration of information about new issues of securities. Also could be reasonable to abandon the taxation of exchange differences arising on transferring investments which come in foreign currency into the national currency on the stock market.

Table 5
The services export-import dynamics of Ukraine (thousand USD)

	Export						Import					
	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
Total	7505520,7	9038866,2	11741292,9	9598330,3	11759405,7	13792217,6	3719398,2	4980621,9	6467956,7	5173531,6	5447694,3	6235194,6
Countries of the CIS	3409912,3	3666306,0	4245530,4	3826642,9	5609587,0	6243021,2	690301,1	799853,2	1058000,6	787196,0	939834,3	1173318,2
Russian Federation	3137030,2	3410567,7	3851594,0	3468142,9	5157055,7	5634624,9	596582,8	696697,8	894214,6	658804,4	793484,0	955556,4
Others	4095608,4	5372560,2	7495762,5	5771687,4	6149818,7	7549196,4	3029097,1	4180768,7	5409956,1	4386335,6	4507860,0	5061876,4
incl. Europe	2360832,9	3154141,1	4176449,0	2936122,5	3298465,3	4103748,8	1703895,2	2402106,7	3488947,7	2640159,7	2420878,8	2813861,5

Table 6
Export-import dynamics structure of Ukraine (thousand USD)

	Export						Import					
	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
Total	100	100	100	100	100	100	100	100	100	100	100	100
Countries of the CIS	45.43	40.56	36.16	39.87	47.7	45.26	18.56	16.06	16.36	15.22	17.25	18.82
Russian Federation	41.8	37.73	32.80	36.13	43.85	40.85	16.04	13.99	13.83	12.73	14.57	15.33
Others	54.57	59.44	63.84	60.13	52.3	54.74	81.44	83.94	83.64	84.78	82.75	81.18
incl. Europe	31.45	34.895	35.57	30.59	28.05	29.75	45.8	48.23	53.94	51.03	44.44	45.13

Stock market of Ukraine is on the verge of major transformation, as indicated in the Development Programme of Ukraine's stock market in 2011-2015. [6] The purpose of this program is to improve the protection of investors and the formation of a competitive national stock market based on the gradual reduction of the speculative component of market with imperative increase in investment-oriented segment in terms of financial globalization.

First of all this document provides mechanisms of solving the problems of low market liquidity, improving its infrastructure and simplification of cexchange regulation. The program contains more than 120 measures to overcome problems: reducing of requirements for listed securities and allowing the listing of stocks that have already passed the listing procedure on other exchange, the abolition of trade with delayed payment, since all transactions are carried out only in the mode of instant delivery versus payment and many others initiatives [6].

Conclusion

Future development of the stock market is impossible without reforming most parts of the market and removing the obstacles that hinder this development. Must be rethought and significantly increased the role of the stock market in providing of investment resources and directing them to upgrade production potential, creating conditions for the emergence of powerful institutional investors.

Implementation of the Development Programme of Ukraine's stock market in 2011-2015 and the above-mentioned actions to solve the problems of the local stock market of Ukraine give an opportunity to achieve the positive results and structural changes.

REFERENCES

1. <http://www.world-exchanges.org/statistic>
2. <http://www.rts.ru>
3. <http://www.ux.ua>
4. <http://utc-capital>
5. Report of National securities and stock market comission. - [Електронний ресурс]. - Режим доступу: www.ssmc.gov.ua.
6. Project of Development Programme of Ukraine's stock market in 2011-2015 // [Електронний ресурс]. - Режим доступу: www.ssmc.gov.ua.